STATE OF MONTANA

MONTANA COLLEGE OF MINERAL SCIENCE
AND TECHNOLOGY

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1973



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

# STATE OF MONTANA

## MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY

## REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1973

TABLE OF CONTENTS

TABLE OF CONTENTS (Continued)

## APPOINTIVE AND ADMINISTRATIVE OFFICIALS

## BOARD OF REGENTS OF HIGHER EDUCATION

Honorable Thomas L. Judge, Governor*

Honorable Dolores Colburg, Superintendent of Public Instruction*

Dr. Lawrence K. Pettit, Commissioner of Higher Education, Secretary

| | | |
|---|---|---|
| John D. French | Ronan | 1975 |
| Lewy Evans, Jr. | Billings | 1976 |
| T. T. Heberly | Havre | 1977 |
| Mrs. Mary Pace, Vice Chairman | Bozeman | 1978 |
| Ted James, Chairman | Great Falls | 1979 |
| Gary Gallagher | Missoula | 1980 |
| Student Representative | Position Vacant | |

*ex officio members

## MONTANA SCHOOL OF MINERAL SCIENCE AND TECHNOLOGY

## LOCAL EXECUTIVE BOARD

| | |
|---|---|
| Walter L. Nelson | April, 1975 |
| John W. Whelan | April, 1976 |
| Mrs. Blanche Copenhaver | April, 1977 |

## ADMINISTRATION

| | |
|---|---|
| Dr. F. W. DeMoney | President |
| Vacant | Vice-President |
| Victor Burt | Business Manager |

## SUMMARY OF RECOMMENDATIONS

MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

JOSEPH J. CALNAN, CIA
DEPUTY LEGISLATIVE AUDITOR

STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Montana College of Mineral Science and Technology as of June 30, 1973, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as indicated in the following paragraphs.

Our tests of plant fund transactions and balances were limited to a review of activity for the year ended June 30, 1973, and did not include tests of amounts accumulated at the beginning of the year. Accordingly, we do not express an opinion as to plant fund balances. However, in our tests of current year transactions we observed that certain equipment items were not reported in the college's accounting records, other items were improperly valued, and certain reported fixed assets no longer belong to the college. Examples of these items are described on pages 20 and 34 of this report. The total amount of these omissions and errors cannot practicably be determined by us.

Our examination did not include tests of auxiliary enterprise transactions and balances. Accordingly, we do not express an opinion as to these transactions or balances.

The college does not record accounts payable relating to auxiliary enterprises. This practice is at variance with generally accepted accounting principles.

Generally accepted reporting standards require a description of accounting policies and other informative disclosures. As described on page 28 of this report, the college's financial statements are not sufficiently informative.

An undetermined amount of the college's grant revenue for the year was not recorded in the college's accounts and is not reported in the accompanying financial statements. Instead, the revenue and the related expenditures, which could be significant to the college's financial statements, appear to be recorded in the accounts of the Montana College of Mineral Science and Technology Foundation, a non-profit corporation which funds a portion of the college's activities. We did not audit the Foundation's financial statements.

Because the revenue and expenditures described in the preceding paragraph could materially affect the college's financial position at June 30, 1973, and changes in fund balances and the current revenues, expenditures, and other changes for the year then ended, we do not express an opinion on the aforementioned financial statements.

## COMMENTS

### GENERAL

In 1893 the Third Legislative Assembly created the School of Mines at Butte as one of six units in the Montana University System. Originally the school provided instruction primarily in mining and mineral sciences. The curriculum broadened gradually, and in 1965 the school's name was changed to the Montana College of Mineral Science and Technology. The college still emphasizes the mineral sciences curriculum but offers instruction in other courses, including Chemistry, English, History, and Mathematics.

Baccalaureate and graduate degree courses of instruction are offered in ten fields, primarily sciences related to mineral engineering. Initial full-time equivalent enrollment for the 1974 fall semester was about 750 students.

Under the Constitution and laws of Montana, general control of the university system is vested with the Board of Regents of Higher Education (hereafter referred to as the regents). Day-to-day operations are directed by the college president.

The Montana College of Mineral Science and Technology Foundation (hereafter referred to as the foundation) was established in 1967 to assist the college. The foundation is a non-profit corporation chartered in Montana. Its articles of incorporation state its purpose in part: to engage in research, particularly in fields relating to mineral sciences; to seek gifts, bequests, grants, and contributions and utilize the same in furtherance of its purposes; and to aid and assist the college in any and all proper ways. The foundation solicits and receives gifts and grants from industry, government, and private individuals and uses the money in support of research and other college activities.

The college is financed primarily by tax moneys appropriated by the legislature, student fees, and auxiliary enterprises, such as the bookstore, residence halls, and food service. Lesser amounts of money are received from various other sources, including student organizations and donations. During fiscal year 1972-73, tax money appropriated to the college, including the bureau of mines, was $1,576,800, and money received from other sources totaled $1,478,995.

CONSTITUTIONAL STATUS

Throughout our examination of the various units of the university system the question of university autonomy has arisen. Basically, the question of autonomy pertains to the extent to which the units of the university system are subject to the actions of the legislative assembly.

Prior to July 1, 1973, Article XI, Section 11, Constitution of Montana, provided in part:

> "The general control and supervision of the state university and the various other state educational institutions shall be vested in a state board of education, whose powers and duties shall be prescribed and regulated by law."

Pursuant to this provision and court decisions interpreting it, there was no question that the legislature could exercise complete control over the university system. The legislature has exercised final authority over the supervision, coordination and management of the system in the past through legislative enactments in the area of budgeting requirements, appropriation measures, personnel benefits, etc.

On July 1, 1973, Montana's new constitution became effective, replacing in its entirety the prior constitutional provisions relating to the control of the university system. The Constitution of Montana now provides in Article X, Section 9(2)(a), that:

> "The government and control of the Montana university system is vested in a board of regents of higher education which shall have full power, responsibility, and authority to supervise, coordinate, manage and control the Montana university system and shall supervise and coordinate other public educational institutions assigned by law."

In contrast to the foregoing constitutional provision, Article VIII, Section 12, of the Constitution, requires that:

> "The legislature shall by law insure strict accountability of all revenue received and money spent by the state. . . ."

Pursuant to the foregoing constitutional provisions, the Board of Regents have certain authority and responsibility over the university system and the legislature has certain authority and responsibility over the revenue and expenditures of state agencies. The issue is whether the legislature, by statutory enactment, may regulate deposit of university revenues, expenditure of university funds, travel expenses, employee benefits, accounting system, property management, and other matters relating to the operation of the university system. This issue has not been resolved and has been a matter of controversy.

Ordinarily, the audits which we perform focus on several aspects of an agency's operation, including agency compliance with relevant laws. In the case of the university system, however, the relevancy of the laws is unclear. Consequently, we have requested an opinion from the Attorney General seeking clarification as to whether the university must presently comply with laws from which they are not specifically exempted.

COLLEGE ACCOUNTING AND THE STATEWIDE BUDGETING AND ACCOUNTING SYSTEM

The Department of Administration has developed the Statewide Budgeting and Accounting System (SBAS) which is presently the required accounting system for all state agencies except the university system. The Department of Administration exempted the university system from exclusive use of the SBAS because it could not provide financial information and reports in accordance with the fund accounting system desired by the university units. Consequently, some of the college's financial transactions presently are recorded in two accounting systems, the SBAS and the college's own accounting system.

Moneys at the university units are generally categorized as either "state" money or "local" money. In practice, "state" moneys consist of the moneys traditionally deposited in the state treasury and appropriated by the legislative assembly from sources such as the General Fund and Earmarked Revenue Fund. In contrast, "local" moneys consist of all other moneys available for use by the university units from a number of sources, such as interest income, reimbursements of costs, the incidental sale of goods and services, and auxiliary enterprises. The two major differences between state and local moneys are that (1) state moneys are deposited or at least pass through the state treasury whereas local moneys do not, and (2) state moneys are correlated with a legislative appropriation whereas local moneys are not. These differences are evidently not the result of a deliberate legislative or executive plan or design, but rather appear to be the result of years of tradition unique to the university system. Consequently, some moneys pass through the state treasury and are appropriated, while other moneys are neither deposited in the state treasury nor appropriated.

Basically, only transactions involving state moneys are recorded in SBAS. Transactions involving local moneys are not recorded in SBAS. All of the college's financial transactions are recorded in the college's accounting system. Essentially then the college's system provides full reporting

but the majority of the college's financial activity is also reported in SBAS. During fiscal year 1972-73 expenditures reported in the college's accounting system were about $2,652,000 while the expenditures reported in SBAS were about $2,173,000 or approximately 82 per cent of the actual total expenditures.

Generally, accounting systems are intended to provide management and other interested parties with accurate, relevant, and timely information for decision-making purposes. Because different types of organizations and different managers need different types of information, not all accounting systems are, or should be, the same. However, over the years a set of generally accepted accounting principles has been developed and is used by most businesses. Similarly, to meet the special needs of governmental organizations, a set of generally accepted accounting principles for governmental organizations has been developed and is generally followed by most governmental units in the United States. Due to variety of funding sources available to universities and outside limitations imposed on the use of some funds, present accounting needs of universities vary somewhat from the needs of other governmental organizations. The American Council on Education (ACE) has developed and recommended a fund accounting system for colleges and universities (College and University Business Administration, 1968). In addition, the American Institute of Certified Public Accountants (AICPA) has recommended that a fund accounting system substantially the same as that recommended by the ACE be implemented by colleges and universities for fiscal years beginning after June 30, 1973, (Audits of Colleges and Universities). Many colleges and universities had already implemented the system recommended by the ACE and the AICPA recommendation will probably result in near universal use of its system. The accounting system used by the college was intended to conform with the fund accounting system recommended by ACE.

SBAS was not developed specifically for universities and consequently, is not the same as the accounting system recommended by the ACE or the AICPA. In addition, SBAS does not presently have the capability to provide information of the type or in the format recommended for colleges and universities and desired by the state university system. However, this does not mean that SBAS could not be modified or a sub-system designed to accommodate the university and college needs. Recently the staff director for the Commission on Post-secondary Education requested comments from the Department of Administration and the Commissioner of Higher Education regarding SBAS utilization by the university system. One of the conclusions in the Department of Administration's response was that SBAS is comprehensive and flexible enough to accommodate most of the university's needs with slight modifications, and that new sub-systems could be designed to meet specific university requirements whenever the basic system cannot readily provide the needed information.

Another factor bearing on the accounting system used by the university system is the question of university autonomy (see discussion on page 5). If it is determined that the university system must comply with state fiscal laws and regulations, all moneys will have to be deposited in the state treasury pursuant to Sections 79-201, 306, and 601, R.C.M. 1947. As a practical matter, deposit of all university moneys in the state treasury would automatically place the university system on SBAS. If SBAS were not modified to provide information in the method desired by the universities, they would probably retain their existing accounting systems, and thus enlarge the existing duplication.

There appears to be no reason why SBAS could not be modified or expanded to meet the needs of the university system. On the other hand, there appears to be no reason why the university's accounting system, maintained outside SBAS, could not be modified to satisfy legislative needs. Maintenance of

two independent systems appears to be an unnecessary duplication, and the question of whether the university system's accounting records should be maintained within or outside SBAS needs to be resolved. Regardless of whether or not SBAS is used, the accounting system must provide accurate, relevant, and timely information to both the legislature and the university system.

In our report on the Examination of Financial Statements of Western Montana College we recommended that Western consult with the Department of Administration to devise a college accounting system within SBAS. Such a system would serve as a pilot project. The college should utilize SBAS if the pilot project demonstrates that a modified and expanded SBAS can accommodate the university system's needs and if it is determined that the university units must deposit all revenues in the state treasury. Use of SBAS would eliminate the present duplication of accounting records and, if all university units used the system, would result in comparable financial data for each unit.

INVESTMENT OF COLLEGE FUNDS

Article VIII, Section 13, of the Montana Constitution, stipulates that the legislature shall provide for a unified investment program for public funds. Article X, Section 10, provides that the various funds of the Montana university system shall be invested under such regulations as may be provided by law. The law, Section 82A-204, R.C.M. 1947, provides that the Board of Investments has the sole authority to invest state funds and that no other agency may invest state funds.

The college carried out its own investment program during fiscal year 1972-73. As of June 30, 1973, the college held investments totaling about $364,000, mostly in certificates of deposit and passbook savings accounts at local banks. However, college officials advised us that they began using the

services of the State Board of Investments in November, 1973, and that all investments except for those associated with revenue bonds and the foundation are now made by the Board of Investments.

Invested moneys consist of money pooled from the student loan fund, the endowment fund, and other local money, such as fees and collections not deposited in the state treasury, auxiliary enterprise revenues, and agency account money. Operation of an investment pool requires distribution of investment earnings to the participating accounts. The college allocates pool investment earnings to the student loan fund, the endowment fund, and to the category termed "local" moneys. However, the local money earnings are not in turn allocated to fees and collections, auxiliary enterprises, or agency accounts.

During fiscal year 1972-73, investment earnings attributable to "local" moneys were $8,850. Instead of distributing the earnings to the appropriate accounts, the college transferred $3,290 to a special projects account within the college plant fund to pay pre-planning costs for a new physical education building. The college transferred the remaining $5,560 to the foundation (see page 20). The $3,290 was recorded as interest income in the plant funds special projects account, even though no money from this account was invested. The $5,560 given to the foundation was not recorded in the college's accounts and, as a result, the college's June 30, 1973 financial statements are misstated.

The college should allocate interest earned on local moneys to the various local money accounts.

*RECOMMENDATION*

*We recommend that the college establish procedures to equitably allocate interest earned on the investment of local money to the various accounts from which the money was invested.*

## COLLEGE-FOUNDATION TRANSACTIONS

Higher education in the United States has always received financial support from private individuals and groups not directly affiliated with any education institution. Harvard, the nation's oldest university, is said to have been established in 1636 through two cash gifts and the donation of a library. Throughout these early years Harvard and other emerging universities were supported primarily by private gifts. At first the universities were able to operate on numerous small gifts, but as costs rose so did the size of gifts, and eventually large philanthropic foundations were making sizable donations to educational institutions. Gifts were used for a variety of purposes, but the principal ones were: endowment funds wherein the principal remained inviolate and the fund income was used to finance college operations, construction of campus buildings, scholarships, and other student and faculty assistance.

Eventually, and especially with the advent of public universities, public tax moneys began flowing into the higher education system. By 1948 about 91 percent of the money for current operations for all colleges and universities (public and private) was derived from several sources: student fees; federal, state, and local government grants and appropriations; auxiliary enterprises such as dormitories and bookstores; and other miscellaneous sources. In contrast, gifts and endowment earnings accounted for only about 9 percent of current operating revenues. Gifts from individuals and foundations continue to be important but are not a predominant source of income for higher education.

During the 1930's, 40's, and 50's, a new type of foundation, the university foundation, was established at many colleges and universities. These foundations were usually non-profit corporations established specifically to provide assistance to the university to which they were related. They differed from the large philanthropic foundations in that they did not provide an original source of funds but, rather, solicited and received funds from others and then used the money for the benefit of their parent institution. Since these foundations are closely aligned with particular institutions, the governing boards of these foundations generally include board members and officers of the parent institutions.

Originally many of these university foundations were established primarily to receive gifts and grants from donors who preferred not to give money directly to the institutions themselves. In this regard, it was evident that funds obtained and controlled by the foundation were free of appropriation and legal constraints and could be used with a flexibility not available to the institution itself. Because of interlocking directorships, foundations were thus in a position to accomplish university purposes without regard to the customary appropriation and legal constraints normally associated with tax-supported institutions.

Presently, many educational foundations provide administration and fiscal management for research programs. At the larger institutions these research programs involve millions of dollars per year. In many instances the research is conducted by institution staff using institution facilities, and may be conducted under contracts between the foundation and a third party or between the institution and a third party.

The Montana College of Mineral Science and Technology Foundation was established in 1967 as a non-profit Montana corporation. Its articles of incorporation state that it was formed for the following purposes:

"(A) To engage in, conduct and carry on research, exploration, laboratory, development and other work in any and every field, and relating to any and every material, substance, compound or mixture now known or which may hereafter be known, discovered or developed, and particularly in fields relating to the minerals sciences and minerals industries, and allied sciences and industries; and to undertake, conduct, manage, assist, promote, encourage and engage or participate in any and every kind of research or scientific, experimental, design or development work, including both pure or basic research and applied research.

"(B) To seek, invite and receive bequests, contributions, gifts, grants and funds from any and all proper sources, and to employ and utilize the same in the conduct and furtherance of its legitimate objects and purposes.

"(C) To aid and assist the Montana College of Mineral Science and Technology in any and all proper ways; to encourage research at Montana College of Mineral Science and Technology, and to provide opportunities for the faculty, students and employees thereof to conduct and engage in research and related activities; to provide scholarships, fellowships and other assistance for students, faculty and employees of the Montana College of Mineral Science and Technology.

"(D) To receive, accumulate and maintain a fund or funds, of real or personal property or both, and subject to the restrictions set forth in these Articles of Incorporation, to use and apply the whole or any part of the income therefrom, and the principal thereof, for the furtherance of the charitable, religious, scientific, literary or educational purposes of this corporation, either directly or by contributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code and its Regulations as they now exist or as they may hereafter be amended."

The foundation is governed by a nine-member board of directors. At the time of our review, the college president, vice-president, and an associate professor were members of the board. In addition, the college business manager serves as the foundation treasurer.

The foundation is a separate corporate entity which is not a state agency. Its transactions should be separate and apart from those of the college. However, because of the close relationship between the two, transactions are frequently merged rather than being conducted at arm's

length and are not always recorded. Foundation revenues and expenditures are not recorded in the college's accounts. However, many foundation expenditures are made on behalf of the college, but since they are not recorded by the college, the college's financial statements do not portray a complete picture of college operations. Problems related to the college's transactions with the foundation are discussed below.

Gifts and Grants

Section 75-8429, R.C.M. 1947, provides that the regents may accept all gifts or grants of any kind on behalf of the state for the use of any of the units of the university system. Gifts or grants subject to special provisions may be accepted but must be used according to the terms of the gift or grant. Section 75-8609, R.C.M. 1947, states that pursuant to the terms of gifts or donors, the regents shall determine the need for all expenditures, and control the purposes for which funds shall be spent. Section 75-8501(10), R.C.M. 1947, specifies that the regents shall have general control of all receipts and disbursements of the university system.

The college solicits and receives gifts but does not always maintain control over the funds received and therefore has no assurance that the proceeds are used in accordance with gift restrictions. Some gifts received by the college are deposited directly in the foundation accounts. Neither the receipt of these gifts nor their deposit in the foundation are recorded by the college. For example, one company donated $5,500 to the college in October, 1972. The donor designated $2,600 for scholarships and stipulated that $1,900 was for unrestricted use of the Petroleum Engineering Department and $1,000 was for unrestricted use of the Geophysics Department. The college recorded $2,600 of the donation as gift revenue and awarded the scholarships. The remaining $2,900 was transferred to the foundation without being recorded by the college. Of the $2,900, $1,900 was deposited in the foundation's

Petroleum Engineering Department account, and $1,000 was deposited in the Geophysics Department account. The college expected the foundation to spend the money to support these respective departments but has no formal means of assuring that this will be done.

In addition to outright gifts, the college receives numerous research grants (referred to as contracts) from governmental agencies and private industry. These grants are accepted pursuant to Section 75-8801, R.C.M. 1947, which authorizes the university units to engage in research programs and to accept gifts and grants to conduct research. College records do not show the total amount of grants received or the costs of research done during fiscal year 1972-73, but the value of various grants is substantial.

As is the case with gift receipts, many research grants received by the college are deposited directly in the foundation. The college does not record or report the grant receipt or the research costs. Therefore, college operations as depicted by the financial statements are misstated by the amounts of such grants and research costs. Because the grant receipts were not recorded by the college, we were unable to determine the amount of grants which were received by the college but deposited in the foundation.

The actual research may be conducted and administered in one or a combination of three ways: by the college using college facilities, by the foundation using college facilities, or by the foundation using foundation facilities. The research work is generally done by college faculty and staff members who may be working as a college employee or a foundation employee at the time. In any event, fiscal management and accounting for the grant is done by the foundation.

Section 75-8501(10), R.C.M. 1947, provides that the regents shall have general control over all receipts and disbursements of the university system.

By depositing research grants in the foundation, the college is, in effect, giving the money to the foundation and, in doing so, loses legal control over it. Because of this, the college loses money which otherwise would be available to defray college operating expenses. The money lost consists of indirect cost reimbursements.

Proposals for many research contracts include an amount for indirect costs or overhead incurred by the college. The amount varies from proposal to proposal, but the rate used on proposals to the Federal Government is 59 percent of direct costs. This rate is used by the college to obtain reimbursements from the grantor. During fiscal year 1972-73, indirect costs reimbursements were $25,500.

In many cases the college provides the research staff, research facilities, and the necessary administrative support and pays overhead costs associated with the use of buildings and equipment. The college administrative and overhead costs are paid directly with appropriated moneys. Therefore, indirect cost reimbursements should accrue to the college, but since the college deposits the research grants in the foundation accounts, the foundation has control over the indirect cost reimbursement funds. The foundation allocates 70 percent of indirect cost reimbursements to its general operating account and 30 percent to an account which may be expended by the college department that originated the research project. The 70 percent allocated to the foundation's general operating account is lost to college use and is available to the foundation for any use.

In addition to research grants made directly to the college and transferred to the foundation, the foundation also receives some research grants in its own name. In many of these cases the research is actually conducted by college staff using college facilities. In these cases the administrative and overhead costs which generate the indirect cost reimbursements are also

incurred by the college. The foundation allocates indirect cost reimbursements under these contracts in the same 70-30 ratio previously described.

Regardless of whether the research grants are between the college and a third party or between the foundation and a third party, the foundation's role is usually limited to fiscal administration and recordkeeping while, in most costs, the actual research is conducted at the college. Payment of administrative and overhead expenses with appropriated moneys and retention of the indirect cost reimbursements by the foundation, in effect, is state financing of a private non-profit corporation.

Since the gifts and grants received by the college are deposited in the foundation, the subsequent expenditure of these gifts and grants is not recorded by the college. Therefore, the college's operations are not accurately shown in its financial statements.

The college has no express authority to give gift and grant revenues to the foundation. College officials expressed the belief that the Board of Regents (Board item 188-001, dated December, 1963) have authorized such transactions. The board item cited by the college does not address the disposition of gift and grant receipts, but rather discusses the circumstances and situations in which the colleges can accept gifts and grants. As discussed previously, Section 75-8501(10), R.C.M. 1947, provides that the regents shall have general control over all receipts and disbursements of the university system. Because the foundation is a separate legal entity, the college, and therefore the regents, lose legal control of gifts and grants when the money is given to the foundation. Neither the college nor the regents have any legal assurance the funds will be spent in accordance with gift and grant restrictions.

In cases where the college elects to have fiscal administration and recordkeeping done by the foundation, the foundation's role and compensation

should be clearly established by written contracts. Similarly, if the foundation performs the actual research required under a grant received by the college, or if the college performs research required under a grant received by the foundation, the transactions should be conducted at arm's length under contractual agreements specifying the work to be performed and the compensation to be paid. In cases where the college performs its own research under its own grant, there would appear to be no reason for the grant administration to be done by the foundation. However, if the college chooses to use the recordkeeping or other services of the foundation, it should be done under contract.

*RECOMMENDATION*

*We recommend that the college:*

1. *Record the receipt of all gifts and grants and subsequent disbursement and expenditure in the college records.*
2. *Retain custody and control over the money received through gifts and grants made to the college.*
3. *Establish written contracts for all work to be done by the foundation on behalf of the college or to be done by the college on behalf of the foundation.*

Investment Earnings Given to Foundation

As discussed on page 10, the college has conducted its own investment program in the past. During fiscal year 1972-73, college investment earnings of $5,560 were given to the foundation. The money was deposited in the foundation's president's account, which is expendable at the discretion of the college president.

The $5,560 transferred to the foundation was not recorded as college revenue, and the financial statements were misstated accordingly. The money should have been distributed to the accounts which provide the principal for investment. Participation in the investment board's pool investment program and establishment of allocation procedures as recommended on page 12, will resolve this problem.

Fixed Asset Transactions With the Foundation

Some of the college's fixed asset transactions with the foundation were not properly accounted for and indicate a less than arm's length business relationship between the college and the foundation. During fiscal year 1972-73, the college gave the foundation an ore mill valued at $43,176. As mentioned on page 35, the ore mill was still reported on the college's balance sheet at June 30, 1973, but was also reported on the foundation's balance sheet. Also, during fiscal year 1972-73, the foundation traded in two typewriters as partial payment for two new typewriters. One of the typewriters traded in was owned by the college, and the other was owned by the foundation. Both new typewriters were used solely by the foundation and were recorded in its fixed asset inventory on June 30, 1973. The college-owned trade-in typewriter was purchased for $436 in 1968 and had a trade-in value of $200. The college business manager said he was unaware of the authority for such disposition of assets to the foundation. In this connection, Section 82-1914, R.C.M. 1947, gives the Department of Administration exclusive power to sell, dispose of, or authorize the sale of equipment owned

by the state of Montana but not needed or used by any state institution or department of the state government.

The foundation is a non-profit corporation and is not a part of the college. Transactions between the two should be conducted in a business-like manner at arm's length. Normal business practices between separate entities require records of transactions and payment for services or assets acquired. Furthermore, it is not customary or prudent for state agencies to dispose of assets without due regard to the value of the assets or the possible use by other state agencies.

*RECOMMENDATION*

*We recommend that the college:*

1. *Seek compensation for the fair market value of college assets given to the foundation.*
2. *Consider the possible value or use of assets by other state agencies prior to disposal of such assets to non-governmental entities.*

College Expenses Paid by Foundation

The foundation pays some expenses of the college. Because expenses paid by the foundation are not recorded or reported by the college, the college's financial statements are misstated by the amounts of such expenditures. Payments made by the foundation on behalf of the college are not subject to the customary control associated with the expenditure of state money. Consequently, the college can avoid the customary controls by transferring money to the foundation which the foundation in turn spends on behalf of the college.

An example of such a transaction is the remodeling of the college president's residence. The residence, which is owned by the state and

provided to the college president, was remodeled during fiscal year 1972-73 at a cost of $17,750. Labor costs of $5,050 were paid directly by the college. Materials costs of $12,700 were paid by the foundation.

Ordinarily, state agencies undertaking such a project are subject to several customary controls. Section 82-3314, R.C.M. 1947, defines construction as: construction, repair, alteration, and equipping and furnishing during construction, repair, or alteration, and Section 82-3317 requires that the Department of Administration review and approve all plans and approve all expenditures for construction costing more than $10,000. The college did not submit the remodeling plans for review and did not obtain the customary approval of the project. The administrator of the Department of Administration's construction and maintenance division, which administers the state's construction laws, said he was unaware of the remodeling project until it was completed.

The foundation payment of $12,700 was made from the foundation president's account. As discussed previously, some of the money in the president's account was derived from college operations. Therefore, the foundation payment was, in effect, made with college money.

The remodeling costs paid by the foundation were not recorded or reported by the college, even though a college asset, the president's house, was improved. Consequently, the college's financial statements were misstated by the amount of the expenditure.

Other foundation expenditures made on behalf of the college included:

-- An instructor's salary of $1,000 for a course offered between regular college semesters.

-- The total costs ($44,400) of an environmental engineering program offered during fiscal years 1971-72 and 1972-73. The program was authorized by the regents in December, 1970; however college officials said funds were not appropriated for the program until the 1973-75 biennium. Funds used by the foundation for this program consisted partially of grants given to the college which the college had transferred to the foundation.

-- Continuing education and extension program costs of $1,000.

-- The college president's moving expenses of about $3,000.

-- Expenses of $1,259 incurred on trips for intercollegiate football games.

During fiscal year 1972-73, the foundation's expenditures totaled $425,370. Most of the expenditures were probably made on behalf of the college since the foundation's primary purpose is to assist and support the college. Since none of the foundation's expenditures made on behalf of the college were recorded or reported by the college, the college's financial statements are misstated.

The college should require all gifts, whether from the foundation or others, to be formally accepted at a centralized point either in the business office or the president's office and should record all gifts as gift income. Recommendations made in preceding paragraphs address this aspect. The college should also revise its procedures so that expenditures made by the foundation on behalf of the college are recognized as gifts and accounted for by the college accordingly.

*RECOMMENDATION*

*We recommend that the college recognize expenditures made by the foundation on the college's behalf as gifts and account for them accordingly.*

Foundation Employees Participate in the Public Employees' Retirement System

During fiscal year 1972-73, the foundation employed two people on a full-time basis. These employees worked solely for the foundation and did not work for the college; however, they were paid through the college payroll. The names of the foundation employees are simply added to the college payroll and they are paid by state warrant along with the other college employees. The foundation reimburses the college for the salaries and benefits of these employees.

In addition to the two full-time employees, several college staff members who work part-time on research grants may be considered to be part-time foundation employees when performing the research. The regular college pay and the research pay of these staff members are processed combined with the college payroll. The foundation reimburses the college for the salary and benefits attributable to research work.

Deductions for the state retirement system are taken from foundation employees' pay and they participate in the public employees' retirement system. Section 68-1601(1), R.C.M. 1947, states that all employees shall become members of the Public Employees' Retirement System on the first day of employment. Section 68-1501(5) and (25) defines employees as persons employed by the State of Montana, its university or any of the colleges, schools, components or units thereof, or any political subdivision or governmental entity which has contracted to come into the system. Section 68-1602(4) excludes from membership independent contractors unless a written contract specifies the creation of an employer-employee relationship for purposes of retirement coverage. In a 1970 letter opinion to the Legislative Auditor, the Attorney General held that in cases where a university faculty member's salary was paid partially by the university and partially by a foundation,

the university should contribute to the Public Employees' Retirement System only in proportion to the amount of salary paid by the university.

As a separate legal entity, the foundation does not qualify as a state agency, component of the university system, or political subdivision, and there are no contracts establishing an employer-employee relationship between the college and the foundation employees. Therefore, foundation employees are not entitled to participate in the Public Employees' Retirement System and the foundation may not make retirement contributions for employees who work part-time for the foundation and part-time for the college. College contributions to the retirement system should be limited to amounts based on the employee's pay attributable to college work. Also, since the foundation employees are not state employees, there appears to be no reason to process the foundation's payroll with the college's.

In addition, the business manager informed us that some employees who work part-time for the college and part-time for the foundation may participate in the Teachers' Retirement System and that retirement contributions for these people are based on their combined college and foundation pay. Generally, Section 75-6209, R.C.M. 1947, limits membership in the Teachers' Retirement System to teachers, principals, and superintendents; administrative officers and instructional and scientific staff members of units of the university system; and other persons employed in an instructional capacity by various state institutions. Section 75-6207(1)(a), R.C.M. 1947, requires employers to make Teachers' Retirement System deductions from members' salaries, and Section 75-6201(3) defines employer as the state of Montana, trustees of school district, or other agency or subdivision of the state. The foundation does not meet any of these criteria.

Although the previously cited Attorney General's opinion does not address the Teachers' Retirement System, the rationale regarding retirement

contributions for people who work part-time for the college and part-time for the foundation also applies to Teachers' Retirement System deductions. The college should contribute only on the basis of the salary attributable to college work and the salary attributable to the foundation should be excluded from inclusion in the publicly operated retirement system.

*RECOMMENDATION*

*We recommend that the college discontinue processing the foundation's payroll, terminate the foundation employees from the Public Employees' Retirement System, and make public employees' retirement and teachers' retirement deductions only on salaries attributable to college work.*

Access to Foundation Records

The foundation is not a state agency, but rather is a separate legal entity. As such, its records and proceedings are not normally open to public review or inspection. However, as a practical matter, the college and the foundation operate as one organization and, as a result, the state has a proprietary interest in the foundation's activities.

At least three other states require state access to records of foundations similar to the one at the college. Colorado state law requires audit access to the records of non-profit entities such as foundations and similar organizations organized for the sole benefit of one or more state institutions of higher education. Access is provided to the State Auditor if the non-profit entity is not separate and apart from the state institution from the standpoint that employees of the institution serve as staff or voting members of the non-profit entity's board and the funds and accounts of the

institution and entity are not entirely separated. If the institution and the non-profit entity are in fact separate and apart, audit access is provided by law to an independent accounting firm approved in advance by the Colorado legislative audit committee and, in such instances, the accountant's work-papers are available to the State Auditor.

New Mexico state law requires all non-profit corporations incorporated for the sole or principal purpose of aiding the function of or forwarding the purposes of any state agency to file annual financial reports with the legislature and the state corporation commission. If the statements are for any reason inadequate to show the fiscal relationship between the non-profit corporation and the state agency, the state corporation commission may, upon the written request of the legislative finance committee, require an audit of the corporation.

New York requires audit access be provided to the State Comptroller.

Because of the closeness of operations of the college and the foundation and the state's interest in the foundation's activities, appropriate state officials should have access to the foundation's records. Lack of access to the foundation's records deprives the college, the regents, and the legislature of legal means to review the foundation's activities which have a direct bearing on the college. The regents should seek legislation authorizing appropriate state officials access to records of private organizations established solely or principally to assist units of the university system. As a minimum, the law should authorize access by the regents and the legislative auditor.

*RECOMMENDATION*

*We recommend that the regents seek legislation authorizing the regents and the Office of the Legislative Auditor access to records of foundations and similar organizations established solely or principally to assist the various units of the university system.*

## ACCOUNTING PROCEDURES

The college's financial transactions are recorded in two accounting systems, the Statewide Budgeting and Accounting System (SBAS) and the college's own accounting system. The college's accounting system generally is intended to conform with the fund accounting system recommended in the American Council on Education's manual, College and University Business Administration. The system recommended by the manual is used by numerous colleges and universities throughout the nation. Recently, another authoritative document, Audits of Colleges and Universities, published by the American Institute of Certified Public Accountants, has established criteria for accounting systems such as the college's. This document is referred to as the AICPA guide. Based on these two publications and other generally accepted accounting principles and practices, there are a number of areas where improvements in the college's accounting procedures are warranted.

### Financial Statements

The college's June 30, 1973 financial statements do not conform to the AICPA guides for college and university accounting in several respects. Although the AICPA guide is effective for fiscal years beginning after June 30, 1973, the following informational items which were omitted from the 1973 statements should be included in future statements if disclosure is to be considered adequate.

1. Deposits for students' rooms and other student deposits should be recorded as liabilities of the appropriate fund, i.e., auxiliary enterprises. These deposits were included in the Agency Funds.

2. The market value of investments should be disclosed.

3. A valuation reserve for receivables should be established and disclosed.

4. A detailed description of debt should be presented, i.e., (1) interest rate, (2) bondholder, (3) installment due dates and amounts, and (4) reserve requirements.

5. The financial report should disclose whether or not the school is in compliance with bond indentures. Pledged revenues should be fully disclosed.

6. The college's financial statements indicate that there is a significant prior year adjustment in statement of changes in Fund Balances. This is actually a typographical error. Amounts below student aid are typed on the wrong lines.

7. Primary financial statements should be separated from supplementary information and supplementary information should be identified as such.

8. Fee waiver income should be recognized and disclosed in the financial statements.

9. Accounting policies should describe:
    a) Method and timing of recognizing income and expense.
    b) Method of asset valuation.
    c) Method of costing inventories.

10. Retirement plan should be described and commitment disclosed.

11. Land owned by the college which is recorded on the Department of Lands' financial statements should be disclosed.

*RECOMMENDATION*

*We recommend that the college revise its accounting and reporting practices in accordance with guidelines prescribed by the College and University Business Administration manual and the AICPA guide for Audits of Colleges and Universities.*

Accounts Receivable

The accounts receivable recording, billing, and collection processes are decentralized among the various college departments and are without adequate controls. Individual departments' accounts are not always reported to the business office, and consequently are not included in the college's

financial statements. For example, on June 30, 1973, uncollected student fees of $12,674 and Bureau of Mines receivables of $1,165 were not reported to the business office, and therefore were excluded from the financial statements. The uncollected student fees consisted of $9,917 in fees attributable to fiscal year 1972-73 and $2,757 in fees dating from 1947 to fiscal year 1971-72.

Accounting for receivables should be centralized in the college business office. Centralization would relieve the various departments of recordkeeping responsibilities, improve college control over receivables, and result in full disclosure in the financial statements.

RECOMMENDATION

*We recommend that the college centralize the accounts receivable function and report all receivables on its financial statements.*

## Expenditure Accruals

It is generally accepted that the financial activities of governmental agencies are to be recorded on an accrual basis of accounting. Under the accrual system, expenditures are to be recorded at the time valid obligations are created rather than when payment is made.

The college follows the accrual system for expenditures paid with state appropriated moneys but does not accrue expenditures paid with "local account" moneys. The college had not paid for nor recorded expenditures for some items purchased and received during fiscal year 1972-73. The goods were to be paid for with local account moneys during fiscal year 1973-74. Consequently, the college's liabilities as of June 30, 1973, and expenditures for the fiscal year 1972-73 were understated on the 1973 financial statement.

The college should accrue all expenditures regardless of which funds will be used to make payment.

*RECOMMENDATION*

*We recommend that the college accrue all valid obligations at year-end.*

## Agency Accounts

The college receives and expends non-college money on behalf of other groups, such as the associated students, the campus FM radio station, the faculty flower fund, and others. Because the money belongs to the various other groups, the college is acting only as a fiscal agent or custodian and maintains separate accounts, called agency accounts, for the revenues and expenditures of each group.

Since the college is acting as a fiscal agent, the agency account transactions are not recorded or reported as college expenditures. However,

the college has included some of its own transactions in the agency accounts. For example, the college's map sales program, GED testing program, and other programs, were included in the agency accounts. Under the map sales program, the college purchases maps for its own use and for sale to the public. During fiscal year 1972-73, expenditures for the program were $4,357, and revenues were $4,963. Because the activity was shown as an agency account, the amounts were not recorded as college expenditures, and the college's financial statements were misstated. Under the GED testing program, people who did not graduate from high school take a high school equivalency test at the college. The college charges a fee for the testing service, but the revenue and related expenses are not recorded in the college's accounts because the program was included as an agency account. This also results in the misstatement of the college's financial statements. GED testing revenue for fiscal year 1972-73 was $527, and expenditures were $924.

The college's financial statements should report all of the college's operations, and the agency accounts should include only those accounts for which the college acts as a fiscal agent. The college should determine which of the programs presently classified as agency accounts are actually college operations and transfer the accountability for those operations to the college's accounts.

*RECOMMENDATION*

*We recommend that the college review the programs presently classified as agency accounts and transfer the accountability for college operations from the agency accounts to the college's accounts.*

Deferred Revenue

Accrual accounting for the colleges and universities provides that revenue and expenses for academic terms conducted over a fiscal year-end should be reported totally within the year in which the program is predominantly conducted.

The college's June 30, 1973 financial statements reported deferred revenue of $10,633 pertaining to the 1973 summer session. The $10,633 consisted of $6,013 in summer session pre-registration fees and $4,620 in unused continuing education fees. The continuing education courses were conducted during fiscal year 1972-73, and the $4,620 in effect was the "profit" from these courses. The summer session was conducted from June 18, 1973, to July 17, 1973, and therefore revenue deferral until fiscal year 1973-74 was appropriate. However, of the total $10,633 deferred, only the $6,013 in summer session pre-registration fees should have been deferred. The $4,620 in continuing education fees was applicable to programs conducted entirely during fiscal year 1972-73 and should have been reported as revenue in the June 30, 1973 financial statements.

Summer session salaries were paid and reported entirely within fiscal year 1973-74. This is in accordance with college and university accrual accounting for academic terms which run over the fiscal year-end; however, the salaries accrued prior to the fiscal year-end should have been reported as liabilities on the June 30, 1973 financial statements even though the expense would not be reported until fiscal year 1973-74. The college did not report the accrued salary liability and therefore the June 30, 1973 financial statements were misstated.

*RECOMMENDATION*

*We recommend that the college defer only that revenue which qualifies for deferral and accrue salary liabilities which are unpaid at the end of the fiscal year.*

Fixed Assets

Nearly every audit report, including reports on previous audits of university units, issued by the Office of the Legislative Auditor has cited problems in the recording, management, and reporting of fixed assets. Improvements needed in the college's fixed asset management program are discussed below.

Some of the college's fixed asset acquisitions were never recorded or were recorded as operating expense, and some assets still on the records are no longer in the college's possession. Physical inventories have not been taken in recent years, and identification tags have not been placed on all equipment.

Unrecorded fixed assets consisted of donated equipment and fixed assets which were written off as operating expenses. During fiscal years 1971-72 and 1972-73, about $34,000 worth of equipment was donated to the college but was not recorded in the general ledger or in the property records. About $9,000 worth of the equipment was listed in a "memo" file, but there was no record of the other $25,000 worth of equipment. Each department annually sends the business office an inventory of its fixed assets, but the $25,000 worth of donated equipment was not included in any of the inventories. Donated equipment should be valued at appraised value when received and should be recorded as gift income and increases to the property accounts.

Other items were not reported as fixed assets because they were recorded as operating expenses. For example, during fiscal year 1972-73, the college's Bureau of Mines purchased equipment which cost $14,436; however, only $11,750 was recorded in the property accounts. The remaining $2,686 was used to purchase a centrifuge and other equipment, but these items were not recorded in the property accounts but rather were written

off as expenses. Also, during fiscal year 1972-73, the college library purchased book bindings costing $599. Of this amount, $218 was recorded in the property accounts and $381 was written off as an expense. Management Memo 70-17, which governs the property accounting practices of state agencies, prescribes the recording of fixed assets that cost $100 or more, have an expected life of more than one year, and which do not substantilly change their identity through use. The college should review all future expenditures to determine whether items purchased should be recorded as equipment or operating expense.

Some equipment is still listed in the fixed asset accounts, even though the college no longer possesses the equipment. For example, an ore mill valued at $43,146 was given to the foundation during fiscal year 1972-73 but is included in the college's June 30, 1973 balance sheet. The foundation also reported the ore mill on its June 30, 1973 balance sheet. If the ore mill is no longer owned by the college, it should be deleted from the college's property accounts.

The last physical inventory taken by the college was for fiscal year 1970. Thereafter, annual equipment listings were submitted to department heads for updating the fixed asset accounts. However, the 1973 update had not been reconciled with the general ledger control account at the time of our review. Assets acquired prior to June 30, 1970, were assigned identification numbers imprinted on tags affixed to the items. Identification tags have not been placed on equipment purchased since June 30, 1970.

Annual physical inventories should be taken of fixed assets. Identification tags should be affixed to fixed assets to promote internal control and facilitate annual inventories.

The college's June 30, 1973 financial statements were misstated by the amounts of all unrecorded equipment acquisitions and dispositions and all

acquisitions recorded as expenses. The college should revise its fixed asset accounting to assure that fixed assets are properly recorded and reported.

RECOMMENDATION

*We recommend that the college establish procedures to properly record all fixed asset acquisitions and dispositions, take annual physical inventories of fixed assets, and attach identification tags to fixed assets.*

Assay and Analysis Revenue

Section 75-8608, R.C.M. 1947, authorizes the college to charge and collect reasonable fees for assays and analyses. In accordance with this provision of law, the college established an analysis program within the Bureau of Mines with the intention that the program be self-supporting, i.e., fees charged would cover the costs of providing the service. A separate account, the Bureau Sales and Service account, was established to account for fees received and costs paid, and is maintained as a non-treasury account in a local bank. Recently most of the analyses have been water quality analyses done for state agencies or as a part of college research projects.

During the 1971-73 biennium the bureau collected fees of $51,224 and deposited the money in the sales and services account. There are no records showing the total costs of providing analysis services, and therefore the bureau is unable to determine whether analysis fees are adequate to recover costs. During the biennium the bureau paid salaries, supplies, and equipment costs of $29,412 from the sales and service account and paid an undetermined amount of costs from appropriated moneys. The costs paid from appropriated moneys, including employees' salaries, were

not charged to the analysis program, but rather were charged to other programs, most likely to either the bureau of mines or the surface water research program. As a result of paying some analysis costs with appropriated moneys and charging the costs to another program, costs of the analysis program were understated and costs of other programs were overstated. Use of appropriated moneys to pay expenses also resulted in the accumulation of $21,812 ($51,224 minus $29,412) in the sales and services account at June 30, 1973. Since the money was in a non-treasury account, the college was able to carry it over to the next fiscal year. College officials informed us the analysis fees were deposited in a non-treasury account because the college wanted to save the money (hold it over from one fiscal year to the next) to buy more efficient analysis equipment. However, holding the money in a non-treasury account also precluded its use in the state's investment program.

Although the payment of analysis program costs from appropriated moneys and the charging of the costs to other programs did not result in a misstatement of total expenses reported in the college's June 30, 1973 financial statements, the costs of the analysis program and of other programs were misstated. Present analysis fees were established several years ago based on a cost study. However, because not all analysis costs are charged to the program, college officials are no longer in a position to know whether fees charged are sufficient to recover costs.

All analysis costs should be charged to the analysis program so that financial statements accurately reflect the costs of individual programs and to facilitate evaluation of the reasonableness of analysis fees.

RECOMMENDATION

*We recommend that the college charge all assay and analysis costs to the analysis program regardless of the source of funds used to pay the costs, periodically determine the costs of assay and analysis services provided, and establish fees which recover the costs.*

Administrative Costs

The college's fiscal year 1972-73 administrative costs, including general administration costs of $125,000, building operation and maintenance costs of $240,000, and others, were accounted for and reported as administrative and maintenance costs rather than being allocated to the various programs that benefited from the expenditures. For example, the college business office provides bookkeeping and other administrative services for the various college educational and research programs, auxiliary enterprises such as the bookstore, agency funds, and the foundation. However, the business office's costs, estimated at about $80,000 during fiscal year 1972-73, were accounted for in total as general administration expenses of the college.

The major portion of administrative costs is paid with state appropriated moneys, but many of the programs that benefit from the expenditures should bear part of the cost from program revenues. For example, auxiliary enterprises such as the bookstore should be financed from enterprise revenues. Expenses of agency accounts such as the associated students organization should be charged to the appropriate agency account, and foundation expenses should be charged to the foundation. However, administrative costs for these activities and groups are paid with appropriated moneys since the college provides administrative services to all of these groups. In situations like this, the activity or group involved should reimburse the college

for the administrative costs.

Limited reimbursements have been received from some activities in the past, but the reimbursements were not based on the costs of services provided. During fiscal years 1971-72 and 1972-73, the associated students were assessed $600 for administrative services. The charge was not based on the costs of services provided but was levied as a token charge. The Foundation reimburses the college $195 per month. Again, the charge is not based on the costs of administrative services provided to the foundation, and the college business manager said the services provided the foundation probably are worth significantly more than $195.

Each year the college pays assessments and levies for water and sewer improvements or for other special improvement districts. The payments are generally made from state appropriated moneys and totaled $4,712 during fiscal year 1972-73. Some assessments and levies were against facilities used by auxiliary enterprises, agency accounts, or the foundation. However, the assessments and levies were not charged to individual programs but were accounted for and reported as general instructional expenses.

During fiscal year 1972-73, the college paid water and sewer assessments of $68 for property owned and used by the foundation and $812 for college property used by auxiliary operations. Assessments and levies should be charged to the programs which benefit from the water, sewer, or other improvements. If several programs benefit from one assessment, the cost should be allocated to the programs involved. In cases where the assessment benefits an auxiliary enterprise, agency account, or the foundation, the college should obtain reimbursement from the organization involved.

Because all administrative and maintenance costs and assessments and levies were charged to the college, the college's June 30, 1973 financial statements overstated college expenses and understated expenses of auxiliary enterprises and agency accounts.

The college should charge or allocate administrative and maintenance costs and assessments and levies to the groups that benefit from such costs and should obtain reimbursement for such costs from auxiliary enterprises, agency accounts, and the foundation.

*RECOMMENDATION*

*We recommend that the college allocate administrative and maintenance costs and assessments and levies to auxiliary enterprises, agency accounts, and the foundation and other groups which benefited by the college expenditures, and assess these groups for the costs of administrative and maintenance services and assessments and levies.*

INTERNAL CONTROL

The objectives of internal accounting control are to provide reasonable protection of assets against loss from unauthorized use or disposition and to provide reasonable assurance as to the reliability of financial records and reports. Internal control procedures for state agencies are prescribed by the Montana Administrative Manual, Section 2-1200, 1210, and 1220, and numerous management memos issued by the Department of Administration.

## Control Over Cash Receipts

Internal control over cash receipts is required to assure that cash is not stolen or used for unauthorized purposes and to assure that receipts are properly accounted for. Major control procedures for cash include timely and intact deposit of all receipts and immediate restrictive endorsement of all checks received. As discussed below, the college needs to improve control over cash receipts to assure all cash is properly safeguarded and accounted for.

The college does not deposit all cash receipts on a timely basis. Under present procedures, the business office receives all incoming mail and distributes it to the appropriate college departments where it is opened. Cash received is returned to the business office; however, not all departments return cash receipts to the business office on a timely basis. One department returns cash receipts weekly, and several others return cash monthly or less frequently. In some instances unendorsed checks were held for more than one month before being returned to the business office. In addition, the business office frequently holds cash for long periods before making deposits. In one instance the business office accumulated $85,900 in receipts over a nine-day period before making a deposit. The college should deposit collections on a timely basis to reduce the potential for loss.

Checks received by the college are not always restrictively endorsed upon receipt. As discussed above, the business office distributes mail to college departments without first extracting cash. Several departments do not restrictively endorse checks immediately upon receipt. Instead, unendorsed checks are returned to the business office and are restrictively endorsed by the cashier when the bank deposit is prepared. Because some departments hold cash receipts for long periods, some checks are held

without endorsements for long periods. Restrictive endorsement becomes even more important because some checks are received without designated payees and, as a result, are highly susceptible to improper negotiation.

In addition, the business office sometimes converts restrictively endorsed checks to currency. The checks in question were restrictively endorsed "<u>for deposit only to the demand account</u>" (underscoring added) and legally could not be cashed. A bank official informed us that the bank would be liable for any loss resulting from the cashing of restrictively endorsed checks. College employees who had cashed checks in this manner said the practice is followed during every registration period. One employee who cashed the checks said the bank required him to endorse the checks below the original payee's name. Another employee said the bank personnel knew her and knew that she worked at the college, so they cashed the checks for her. Currency obtained by cashing the checks was used to replenish the business office's change fund.

Negotiable instruments such as checks should be restrictively endorsed at the time of initial receipt and receipts should be deposited intact.

Cash receipts returned by the departments to the business office are kept in the busines office safe until deposited. Potential loss of cash receipts is increased by the extensive access to the business office safe. At least four employees have access to the safe, and several former employees who had access during their employment probably could still open the safe because its combination has not been changed since 1969. Also, the security provided by the safe is partially compromised by one employee who has the combination written on a piece of paper kept in an unsecured area. In addition, the log book for the safe did not include a record of persons who have access to the safe.

*RECOMMENDATION*

*We recommend that the college establish adequate control over cash by requiring the business office to open all mail and remove all cash before forwarding mail to the appropriate departments, restrictively endorse checks upon receipt, deposit cash receipts on a timely basis, limit access to safekeeping devices, and change combinations or locks periodically or whenever persons with access to the devices terminate their employment.*

Control Over Cash Disbursements

Internal control over cash disbursements is necessary to assure that cash is used only for authorized purposes and that only authorized payments are made.

The college's procedures for payments with "local" moneys do not provide adequate control over expenditures. During fiscal year 1972-73, 2,281 checks were drawn on the "local" income account. In many cases the authorization documents, approvals for payment, and checks for these local income expenditures were prepared by the same individual. Adequate internal control requires separation of these duties.

Checks drawn by the business office on local moneys are generally returned to the individual submitting the payment request rather than to the payee. For example, student aid payments are sent to the financial aid officer who requested the payments. Also, disbursement of payments from the College Loan Fund are made by the controller who is an authorized signer of

those checks, and who also may approve an advance or loan request. Accepted internal control procedures require checks to be sent to personnel other than those preparing the claims and authorizing the payments.

The college does not use prenumbered checks for one of its local account funds, the National Direct Student Loan Fund. Preprinted checks are used, but check numbers are written or typed on checks when they are drawn. Voided checks are replaced with another bearing the same number. Prenumbered checks are necessary to provide adequate accountability over blank checks and to facilitate bank reconciliation.

College procedures for the handling of non-sufficient funds (NSF) checks need to be improved. Presently, before making a deposit, the college calls its bank to determine the amount of NSF checks the bank is holding. The college then uses cash from one of its change funds to redeem the NSF checks. The redeemed checks are listed on the daily change fund reconciliation but are not recorded in the accounting records. Normally the college writes off checks which have not been made good within one year. At the time of our review, NSF checks held in the college's change fund totaled $384 and ranged from one day to nine months old. There is no readily available record of the amounts of checks written off in past periods.

Buying back NSF checks it not a proper use of cash. A more acceptable method of handling NSF checks would be for the bank to charge the college's account for the NSF checks and for the college to record the checks in its accounting records as reductions in cash and increases in receivables. This process would increase awareness of and control over NSF checks and provide an accounting record which would facilitate collection efforts. Amounts which cannot be collected by the college should be referred to the Department of Revenue for collection in accordance with Section 84-7101, R.C.M. 1947.

*RECOMMENDATION*

*We recommend that the college:*

1. *Separate the authorization, payment approval, and check preparation functions for any local account funds which are maintained and that checks be sent to persons other than those who originated payment requests.*
2. *Use prenumbered checks for any local bank accounts which must be maintained.*
3. *Discontinue buying back NSF checks, record such checks as reductions to the bank account and increases to accounts receivable, and refer uncollectible amounts to the Department of Revenue.*

Control Over Cash Change Funds

The college has eight cash funds. Four of these have been approved by the business office and recorded in the college's accounting system, and the other four are unauthorized and unrecorded. The four unauthorized and unrecorded change funds had balances totaling $725 on October 10, 1973.

The unauthorized change funds were established by withholding daily cash receipts and are maintained at fluctuating levels by withholding varying amounts of cash receipts. Since the funds are unrecorded, there is no accountability for them.

The business office's change fund is under the custody of the cashier but is accessible by several office employees. Access to the change fund should be limited to the custodian so that she is not placed in a position of being responsible for the actions of others.

All cash funds should be approved and recorded in the formal accounting

records to establish accountability and provide for internal control. The funds should be reconciled periodically by an employee who is independent of the fund custodian and reconciliation reports should be filed with the business office. Reconciliation differences should be reviewed by responsible officials and, upon proper approval, the funds adjusted to the established accountability.

Daily receipts should not be used to establish or replenish a cash change fund. The contingent revolving account may be used to establish and maintain change funds in amounts deemed necessary.

RECOMMENDATION

*We recommend that the college inventory all cash change funds under its control, formally establish necessary change funds and maintain them from the contingent revolving account, limit access to fund custodians, provide for formal accountability, and maintain such through periodic reconciliations.*

HEALTH SERVICE PROGRAM

Each unit in the university system provides a health service program to its students. Programs vary from an on-campus infirmary at Montana State University to a nominal program at the college. The college charges each student a health service fee of $3.75 per semester and reimburses various medical expenses of each student up to $50.00 per semester. Supplemental major medical insurance is also available to students for an additional premium. The health service program is operated and accounted for as an auxiliary enterprise.

Fund Balance

As an auxiliary enterprise, the health service program should be on a break-even basis. Fees charged should be adequate to fund the program and provide a necessary reserve.

During fiscal year 1972-73, the health service program collected $5,100 and disbursed $3,600. The business manager said the account activity is about the same each year, and receipts always exceed disbursements. As of June 30, 1973, the health services account fund balance was $25,932.

To maintain the health services program on a break-even basis, the college should periodically evaluate the health service fee, benefits, and reserve requirements and make any necessary changes.

*RECOMMENDATION*

*We recommend that the college periodically evaluate the student health service program and revise the fees and benefits as necessary to provide a reasonable reserve and maintain the program on a break-even basis.*

Loan to Alumni Association

Accounts receivable shown in the college's June 30, 1973 balance sheet include a $15,000 receivable from the college alumni association, a non-profit corporation. The business manager said the college loaned $15,000 of student health service funds to the alumni association in November, 1968. The college president and the business manager approved the loan; however, the college did not obtain a promissory note or other evidence of indebtedness from the alumni association.

The $15,000 was used to buy lighting equipment for the college's then new stadium. The stadium was built by a private company and turned over to the college for $1.00.

The loan approval document stated the loan was to be repaid from the stadium income. However, stadium income accrues to the college, not to the alumni association. No payments have been made on the loan to date, and the business manager said the loan probably never will be repaid. Most likely it will be written off some time in the future.

There is no express authority for the college to make a loan of this type if it is, in fact, a loan. The transaction is recorded on the college records as an account receivable; however, it occurred in 1968, no repayment has ever been made, and no interest or promissory note exists. In actuality, the transaction appears to be simply an expenditure of health service funds to purchase stadium lights.

The college should determine the true nature of the transaction and establish repayment provisions and a promissory note if the transaction is actually a loan.

RECOMMENDATION

*We recommend that the college determine whether the $15,000 transaction with the alumni association was actually a loan and, if not, take appropriate measures to record the transaction properly.*

Reimbursement Limitation

Under the student health service program the college reimburses students up to $50 per semester for medical expenses. To obtain reimbursement, students must present paid medical bill receipts to the business office.

The college does not apply the $50 limitation to athletes. For example, medical expenses of one athlete were $475. Athletic insurance paid $195 of the cost, and the college paid the remaining $280 from the health service program. Another athlete incurred medical expenses of $322. Athletic insurance paid $217, and the college paid $105 from the health service program.

College policy, as stated in its 1971-73 catalog, limits the health service reimbursement to $50 per student per semester. There are no special provisions allowing greater reimbursements for athletes; therefore, the college should limit reimbursements to athletes to $50 per semester. If present athletic insurance is inadequate to cover the costs of athletes' injuries, the college should either increase its insurance coverage or pay the uninsured costs with athletic program funds rather than use student health funds to subsidize the athletic program.

RECOMMENDATION

*We recommend that the college apply the health service reimbursements policy equally to all students.*

## VACATION LEAVE

Section 59-1001, R.C.M. 1947, establishes annual vacation leave allowance for state employees. The leave allowances range from 15 to 24 days per year, depending on the employee's length of state service. Section 59-1007, R.C.M. 1947, excludes school teachers from the state's vacation leave provisions. However, the Attorney General's Opinion No. 1, Volume No. 34, states that non-teaching employees of the Montana University System are governed by the provisions of Section 59-1001. The opinion also stated that the board of regents has no authority to grant vacation leave to administrative employees at a schedule any different from that set forth in the law.

The college grants some non-teaching employees vacation leave at the rate of 22 days per year. These employees should receive annual leave of from 15 to 24 days per year in accordance with Section 59-1001, R.C.M. 1947.

Also, some employees are allowed to take vacation leave prior to completion of one year of continuous employment, as required in Section 59-1101, R.C.M. 1947, For example, one employee hired in June, 1972, was allowed vacation leave with pay in July, 1972, and April, 1973. Another employee, also hired in June, 1972, received leave in May, 1973. A third employee hired in September, 1972, received leave in August, 1973. The latter was advanced 2½ days in excess of leave earned.

### *RECOMMENDATION*

*We recommend that the college grant employees vacation leave in accordance with applicable state laws.*

## TRAVEL ADVANCES

There are two approved methods for making travel advances to state employees. Management Memo 69-2 allows the use of contingent revolving funds for travel advances, and SBAS provides an account for expense advances to employees.

The college makes employee travel advances but does not use either of the approved procedures. Instead, travel advances are made either from a student loan fund account or from the foundation. After the employee's travel is completed, the college repays the loan fund or the foundation with appropriated moneys and charges the appropriate account for the travel expense. College officials said they were unaware of the approved methods for making travel advances.

The college should use the contingent revolving account or SBAS to make travel advances.

### *RECOMMENDATION*

*We recommend that the college make employee travel advances from the contingent revolving account or SBAS.*

## STUDENT ASSISTANCE PROGRAM

The college administers several programs providing financial assistance to students. The assistance includes short-term loans, long-term loans, scholarships, federal grants, and work study assistance.

Funds for the financial assistance programs consist of gifts and grants from the public, industry, and the federal government. The terms of most gifts and grants restrict the funds for use as student scholarships or loans.

In addition, some grants, particularly those from the federal government, impose eligibility criteria and other limitations on use of the funds and specify accounting procedures which must be followed. As a result, the college accounts separately for each gift and grant.

During fiscal year 1972-73, the college received gifts and grants totaling $39,526 from private sources and $72,168 from the federal government, and used $14,332 of appropriated state money for required matching funds. During the year, the college awarded student assistance totaling $182,732. About 60 percent of the dollar amount of student assistance was made with federally provided funds.

The National Direct Student Loan (NDSL) program is one of the federally funded assistance programs conducted by the college. Section 205(b)6, of the NDSL Manual states that outstanding NDSL loans shall be cancelled upon the death or total disability of a borrower. The college's previous note form for NDSL loans included the cancellation clause, but the presently used form does not. College officials did not know why the cancellation provision was omitted from the new form.

The cancellation provision should be included in NDSL notes so that survivors could be aware the loan need not be repaid.

*RECOMMENDATION*

*We recommend that the college include the loan cancellation provision in the NDSL notes.*

Small Balance Loans

The college is carrying several small balance NDSL loans on its books. For example, one loan has a balance of $0.06, another has a balance of $0.35, and another $1.99. Present federal regulations preclude the use of NDSL loan funds to write off these loans.

The college pays a billing agent a minimum of $1.50 per month to process each NDSL account. Therefore, it would be less expensive to write off the small balance accounts than to continue carrying them on the books. The college should confer with the Federal agency sponsoring the NDSL program and attempt to develop procedures which would allow the use of NDSL funds to write off small balance loans.

*RECOMMENDATION*

*We recommend that the college confer with the Federal agency sponsoring the NDSL program and seek procedures which would allow the use of NDSL funds to write off small balance loans.*

Delinquent Loans

Numerous NDSL borrowers were delinquent as of June 30, 1973, and several had made no payments for three years.

The college has no formal procedures for collecting NDSL loans and had not made any collection attempts on the delinquent loans. The college should make all reasonable efforts to collect NDSL loans, and, after exhausting all other means, should turn delinquent accounts over to the Department of Revenue in accordance with Section 84-7101, R.C.M. 1947, passed during the 1974 legislative session, and Management Memo 1-74-11.

*RECOMMENDATION*

*We recommend that the college establish and implement collection procedures for NDSL loans.*

United Student Aid Fund Loan Account

The United Student Aid Fund (USAF) is a private non-profit corporation established to make low cost student loans. The fund was established by donations from industry and individuals. Colleges and universities may participate in the program by making matching contributions. Each $1,000 contribution is matched by $24,000 of USAF funds, and students at the contributing college may borrow an aggregate of $25,000.

The college began participating in the USAF program in 1962, and from then through June 30, 1973, had contributed $1,850. Considering the college contribution and the USAF matching funds, students could borrow up to $44,000. However, as of June 30, 1973, only $4,679 of USAF loans were outstanding to students or former students of the college. The college did not contribute to the USAF program during fiscal year 1972-73, and no college students have obtained USAF loans since 1970.

The college has not recorded its investment in the USAF program and did not include the USAF investment in its June 30, 1973 balance sheet. Because the USAF loan program had not been entered in the accounts and because the program had not been used during at least the last three years, the present financial aid officer was unaware of its existence. Consequently, he did not consider or use the USAF program when arranging financial assistance for eligible students.

The college's USAF participation agreement states that unused college donations may, at USAF's discretion, be refunded to the college if it withdraws from the program. Considering the amount of outstanding loans and its $1,850 investment, the college may be able to obtain a $1,659 refund from the USAF program.

The college should determine whether it needs to retain the USAF program and either use the program or withdraw from it. Also, responsibility

for the USAF program, if retained, should be delegated to the financial aid officer so he can coordinate all student assistance programs.

*RECOMMENDATION*

*We recommend that the college delegate responsibility for the USAF program to the financial aid officer, determine the future need for the program, and either use the available loan money or withdraw from the program.*

## FINAL COMMENTS

We have reviewed the comments and recommendations contained in this report with the president of Montana College of Mineral Science and Technology and the Commissioner of Higher Education. The full text of the college's reply is included as the last section of this report. No reply was received from the Commissioner of Higher Education. In those instances where the officials raised issues warranting clarification, we have inserted appropriate comments.

The cooperation and assistance provided by the foregoing officers and their staff are appreciated.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett
Legislative Auditor

November 8, 1974

FINANCIAL STATEMENTS

EXHIBIT A

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
BALANCE SHEET

June 30, 1973

ASSETS

| | | |
|---|---|---|
| CURRENT FUNDS: | | |
| Unrestricted: | | |
| Educational and General | | |
| State Appropriations | 23,368.16 | |
| Interest & Income | 326.10 | |
| Cash - Local Account*(1) | 10,632.90 | |
| Total Educational and General | 34,327.16 | |
| Auxiliary Enterprises | | |
| Cash - Local Account* | 60,512.37 | |
| Accounts Receivable | 15,842.45 | |
| Inventories | 49,335.63 | |
| Total Auxiliary Enterprises | 125,690.45 | |
| Student Aid | | |
| Cash - Local Account* | 7,084.28 | |
| Total Student Aid | 7,084.28 | |
| Total Unrestricted | | 167,101.89 |
| Restricted: | | |
| Educational and General | | |
| Cash - Local Account* | 21,489.99 | |
| Accounts Receivable | 348.12 | |
| Total Educational and General | 21,838.11 | |
| Student Aid | | |
| Cash - Local Account* | 25,274.94 | |
| Total Student Aid | 25,274.94 | |
| Total Restricted | | 47,113.05 |
| Total Current Funds | | 214,214.94 |
| LOCAL FUNDS: | | |
| Institutional: | | |
| Cash | | 928.83 |
| Investments | | 64,382.11 |
| Loans Outstanding | | 13,726.36 |
| Total Institutional | | 79,037.30 |
| NDEA: | | |
| Cash | | 3,201.41 |
| Investments | | 13,700.00 |
| Loans Outstanding | | 205,214.58 |
| Total NDEA | | 222,115.99 |
| Total Loan Funds | | 301,153.29 |
| ENDOWMENT FUNDS: | | |
| Investments | | 54,201.77 |
| Total Endowment Funds | | 54,201.77 |

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
BALANCE SHEET

June 30, 1973

LIABILITIES AND FUND BALANCES

| | | |
|---|---|---|
| CURRENT FUNDS: | | |
| Unrestricted: | | |
| Educational and General | | |
| Deferred Revenues | 6,012.60 | |
| Expenditure Accruals - State Appropriations | 23,368.16 | |
| Fund Balances | 4,946.40 | |
| Total Educational and General | 34,327.16 | |
| Auxiliary Enterprises | | |
| Accounts Payable | 151.92 | |
| Fund Balance - Notes Payable | 6,325.73 | |
| Fund Balances | 119,212.80 | |
| Total Auxiliary Enterprises | 125,690.45 | |
| Student Aid | | |
| Fund Balance | 7,084.28 | |
| Total Student Aid | 7,084.28 | |
| Total Unrestricted | | 167,101.89 |
| Restricted: | | |
| Educational and General | | |
| Fund Balance | 21,838.11 | |
| Student Aid | | |
| Fund Balance | 25,274.94 | |
| Total Restricted | | 47,113.05 |
| Total Current Funds | | 214,214.94 |
| LOAN FUNDS: | | |
| Institutional: | | |
| Fund Balance | | 79,037.30 |
| NDEA: | | |
| Fund Balance | | 222,115.99 |
| Total Loan Funds | | 301,153.29 |
| ENDOWMENT FUNDS: | | |
| Fund Balance | | 54,201.77 |
| Total Endowment Funds | | 54,201.77 |

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
BALANCE SHEET

June 30, 1973

ASSETS

| | |
|---|---|
| **PLANT FUNDS:** | |
| Unexpended: | |
| Investments | 12,587.56 |
| Cash - Local Account* | 22,520.53 |
| State Appropriations Receivable | 1,122,456.65 |
| Construction in Progress | 380,518.30 |
| Total Unexpended | 1,538,083.04 |
| Funds for Retirement of Indebtedness: | |
| Accounts Receivable - Bond Account | 25,275.74 |
| Investments - at cost | 71,014.95 |
| Cash - Local Account* | 1,201.75 |
| Total Retirement of Indebtedness | 97,492.44 |
| Investment in Plant: | |
| Land | 63,066.97 |
| Equipment | 1,727,435.38 |
| Buildings | 4,757,707.72 |
| Other Improvements | 93,602.08 |
| Total Investment in Plant | 6,641,812.15 |
| Total Plant Funds | 8,277,387.63 |
| **AGENCY FUNDS:** | |
| Payroll Receiving Account | 46.00 |
| Cash - Local Account* | 17,520.24 |
| Cash - Local Account (Montana National Bank) | 2,162.79 |
| Investments, at cost | 3,000.00 |
| Total Agency Funds | 22,729.03 |

* Under the College Pooled Investment Program, short-term investments are not segregated by fund groups. Of the total sum of $166,237.00 (First Metals Bank) reflected in this financial statement as cash, an amount of $145,000 was actually invested in Certificates of Deposit, as of June 30, 1973

(1) Land Grant Funds were recorded in Current Funds Unrestricted for the period with $75,000 being spent for operation and $107,074.61 being transferred to Retirement of Indebtedness funds. Since Land Grant Funds are pledged to Revenue Bonds, the funds in the future will be reported and recorded in the Retirement of Indebtedness Plant Funds section.

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
**BALANCE SHEET**

**June 30, 1973**

**LIABILITIES AND FUND BALANCES**

| | |
|---|---|
| PLANT FUNDS: | |
| Unexpended: | |
| Bonds Payable | 5,331.24 |
| Fund Balances | 1,532,751.80 |
| Total Unexpended | 1,538,083.04 |
| Funds for Retirement of Indebtedness: | |
| Fund Balance | 97,492.44 |
| Investment in Plant: | |
| Bonds Payable | 1,336,668.76 |
| Fund Balance | 5,305,143.39 |
| Total Investment in Plant | 6,641,812.15 |
| Total Plant Funds | 8,277,387.63 |
| AGENCY FUNDS: | |
| Accountability for Stale-dated warrants | 46.00 |
| Fund Balances | 22,683.03 |
| Total Agency Funds | 22,729.03 |

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
STATEMENT OF CHANGES IN FUND BALANCES
FOR FISCAL YEAR ENDING JUNE 30,1973

| | Current Funds | |
|---|---|---|
| | Unrestricted | Restricted |
| Revenues and Other Additions: | | |
| Educational and General Revenues | 1,982,008.17 | 78,943.82 |
| Auxiliary Enterprise Revenues | 258,017.07 | |
| Student Aid | 6,130.08 | 100,115.00 |
| Investment Income | | |
| Loan Fund Revenues | | |
| Gifts and Bequests | | |
| Debt Service Grant - Fed. Govt. | | |
| Student Fees | | |
| Retirement of Indebtedness | | |
| Purchase of Capital Equipment | | |
| Total Revenues and Other Additions | 2,246,155.32 | 179,058.82 |
| Expenditures and Other Deductions: | | |
| Educational and General Expenditures | 1,890,514.90 | 77,048.88 |
| Auxiliary Enterprise Expenditures | 324,334.15 | |
| Student Aid | 3,109.70 | 130,879.29 |
| Loan Fund Expenditures | | |
| Retirement of Indebtedness | | |
| Interest on Indebtedness | | |
| Prior Year Adjustment | | |
| Total Expenditures & Other Deductions | 2,217,958.75 | 207,928.17 |
| Transfers Among Funds - Additions/ (Deductions): | | |
| Land Grant Income | ( 107,074.61) | |
| To Retirement of Indebtedness | | |
| Construction in Progress to Investment in Plant | | 1,437.50 |
| Endowment Income | | 4,980.92 |
| To Endowment Funds | | ( 25,028.16) |
| Total Transfers | ( 107,074.61) | ( 18,609.74) |
| Net Increase/(Decrease) for the year | ( 78,878.04) | ( 47,479.09) |
| Fund Balance at beginning of year | 216,447.25 | 97,592.14 |
| Fund Balance at end of year | 137,569.21 | 47,113.05 |

| Loan Funds | Endowment Funds | Plant Funds: Unexpended | Plant Funds: Retirement of Indebtedness | Plant Funds: Investment in Plant |
|---|---|---|---|---|
| | 1,809.47 | 3,291.67 | 10,255.54 | |
| 20,303.23 | | | | |
| | 22,500.00 | | | |
| | | | 23,694.00 | |
| | | | 28,055.15 | |
| | | | | 20,000.00 |
| | | | | 95,825.88 |
| 20,303.23 | 24,309.47 | 3,291.67 | 62,004.69 | 115,825.88 |
| 3,608.57 | | | | |
| | | | 20,000.00 | |
| | | | 118,235.00 | 750.00 |
| 3,608.57 | | | 138,235.00 | 750.00 |
| | | | 107,074.61 | |
| | | ( 5,316.22) | 5,316.22 | |
| | | (247,025.05) | | 247,025.05 |
| | ( 1,437.50) | | | |
| ( 4,980.92) | | | | |
| | 25,028.16 | | | |
| ( 4,980.92) | 23,590.66 | (252,341.27) | 112,390.83 | 247,025.05 |
| 11,713.74 | 47,900.13 | (249,049.60) | 36,160.52 | 362,100.93 |
| 289,439.55 | 6,301.64 | 1,781,801.40 | 61,331.92 | 4,943,042.46 |
| 301,153.29 | 54,201.77 | 1,532,751.80 | 97,492.44 | 5,305,143.39 |

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
STATEMENT OF CURRENT FUNDS REVENUES,
EXPENDITURES, AND OTHER CHANGES.
FOR FISCAL YEAR ENDING JUNE 30, 1973

| | Current Funds Unrestricted | Restricted | Total |
|---|---|---|---|
| Revenues: | | | |
| Educational and General: | | | |
| State Appropriations - | | | |
| Student Fee EMKD Rev. Account | 238,561.70 | | 238,561.70 |
| Univ. Millage EMKD Rev. Account | 250,000.00 | | 250,000.00 |
| General Fund | 1,225,000.00 | | 1,225,000.00 |
| Coal Evaluation | 48,814.00 | | 48,814.00 |
| Regents Equity | 52,987.00 | | 52,987.00 |
| Land Grant Income | 166,645.47 | | 166,645.47 |
| Gifts | | 3,000.00 | 3,000.00 |
| Bureau Sales & Services | | 27,775.33 | 27,775.33 |
| Federal Govt. Gifts & Contracts | | 48,168.49 | 48,168.49 |
| Total Educational & General | 1,982,008.17 | 78,943.82 | 2,060,951.99 |
| Auxiliary Enterprises | 258,017.07 | | 258,017.07 |
| Student Aid - | | | |
| Federal Government | 6,130.08 | 60,589.00 | 66,719.08 |
| Other Sources | | 39,526.00 | 39,526.00 |
| Total Revenues | 2,246,155.32 | 179,058.82 | 2,425,214.14 |
| Expenditures and Transfers: | | | |
| Educational and General: | | | |
| Administration & General | 244,151.21 | 17,105.64 | 261,256.85 |
| Instruction | 934,007.71 | 8,400.00 | 942,407.71 |
| Org. Act. Related to Educ.Dept. | 11,109.00 | 3,000.00 | 14,109.00 |
| Organized Research | 399,125.00 | 48,543.24 | 447,668.24 |
| Library | 62,499.49 | | 62,499.49 |
| Physical Plant | 239,622.49 | | 239,622.49 |
| Educational & Gen. Expend. | 1,890,514.90 | 77,048.88 | 1,967,563.78 |
| Transfers: | | | |
| To Retirement of Indebtedness | 107,074.61 | | 107,074.61 |
| Total Educational & General | 1,997,589.51 | 77,048.88 | 2,074,638.39 |
| Auxiliary Enterprises: | | | |
| Expenditures | 324,334.15 | | 324,334.15 |
| Student Aid: | | | |
| Expenditures | 3,109.70 | 130,879.29 | 133,988.99 |
| Transfers - Net | | 18,609.74 | 18,609.74 |
| Total Expenditures and Transfers | 2,325,033.36 | 226,537.91 | 2,551,571.27 |
| Net Increase/(Decrease) in Fund Balances | ( 78,878.04) | ( 47,479.09) | ( 126,357.13) |

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
STATEMENT OF LOAN FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1973

| | NDSL | Institutional | Total |
|---|---|---|---|
| Fund Balances 7/1/72: | | | |
| Cash Balance | 22,955.12 | 4,192.50 | 27,147.62 |
| Investments | | 61,882.11 | 61,882.11 |
| Net Loans Outstanding | 187,577.09 | 12,832.73 | 200,409.82 |
| | 210,532.21 | 78,907.34 | 289,439.55 |
| Revenues and Other Income: | | | |
| Investment Income | | 4,980.92 | 4,980.92 |
| Interest Income | 1,889.39 | 561.08 | 2,450.47 |
| Federal Capital Contributions | 11,579.00 | | 11,579.00 |
| Institutional Capital Contributions | 1,286.54 | | 1,286.54 |
| Other Income | | 6.30 | 6.30 |
| Total Revenues & Other Income | 14,754.93 | 5,548.30 | 20,303.23 |
| Expenditures and Other Deductions: | | | |
| Other Expenses | | 337.54 | 337.54 |
| Administration Expenses | 2,102.20 | | 2,102.20 |
| Loan Principal Cancelled | 762.55 | 99.88 | 862.43 |
| Other Collection Expenses | 144.73 | | 144.73 |
| Prior Year Payments Applied | 116.67 | | 116.67 |
| Transfer to Schclarship Fund | | 4,980.92 | 4,980.92 |
| Accounts Payable Paid | 45.00 | | 45.00 |
| Total Expenditures & Other Ded. | 3,171.15 | 5,418.34 | 8,589.49 |
| Balance June 30, 1973 | 222,115.99 | 79,037.30 | 301,153.29 |
| Fund Balances June 30, 1973: | | | |
| Cash Balance | 3,201.41 | 928.83 | |
| Investments, at cost | 13,700.00 | 64,382.11 | |
| Net Loans Outstanding | 205,214.58 | 13,726.36 | |
| | 222,115.99 | 79,037.30 | |

| | |
|---|---|
| NDSL Loans made in Year | 37,240.00 |
| Institutional Loans made in Year | 23,036.88 |

AGENCY REPLY

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY

BUTTE, MONTANA 59701

Office of the President

(406) 792-8321

November 6, 1974

NOV 7 1974

Mr. Morris L. Brusett
Legislative Auditor
State Capitol
Helena, Montana 69501

Dear Mr. Brusett:

Montana Tech acknowledges receipt of the Legislative Audit for July 1, 1972-June 30, 1973 as received by this office on October 24, 1974.

A detailed response to the Audit as prepared by our Business Manager, Mr. Vic Burt, is attached herein. With the exception of a few general comments, I will confine my remarks to the Foundation situation.

First, let me thank you and your staff, particularly John Donwen, for their time in making such a detailed study, and for the many positive contributions contained in the report. The staff was unobtrusive and very reasonable as they pursued their difficult and time consuming task. Your staff is welcome on this campus at any time.

Second, we accept the report as a fiscal audit, thus satisfying any and all requirements of such an audit for the period of the audit.

Third, we understand that except in those areas so cited in your report all other areas of our operation, both fiscally and managerially, are in good order.

Fourth and last, I would like to express my concern about the emphasis your report put on the Foundation. I recognize the need for greater understanding and appreciation for the Foundation structure, purpose and relation to the College. Our Montana College of Mineral Science and Technology Foundation is for the benefit of the College. It has no other reason for existing. The financial benefits are very important to the overall academic and fiscal health of the College. The Foundation is audited yearly by an independent, private public accounting

firm, in addition to the annual financial statement. Such audit and financial reports are available, and have been sent regularly to the Commissioner of Higher Education. The suggestion of incorporating the Foundation as an integral part of the State agency system must be seriously challenged. I hope when you have read Vic Burt's detail on this area and given the situation greater thought, that you will change your position.

Very truly yours,

Fred W. DeMoney

Fred W. DeMoney
President

FWD:mtk
Attachment

cc: Dr. L. K. Pettit
Mr. Victor Burt

De Re Metallica
COLLEGE OF MINERAL SCIENCE & TECHNOLOGY

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
BUTTE, MONTANA 59701

BUSINESS OFFICE

November 4, 1974

Mr. Morris Brusett
Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Morris,

Attached are my comments and reply to specific recommendations of the legislative audit committee for the 1972-1973 audit recently completed.

Sincerely,

Victor Burt
Business Manager

VB:jlk

NOV 7 1974

# GENERAL COMMENTS

## OPENING STATEMENT

We would like to make some general comments regarding the audit before replying to the specific recommendations.

As I have mentioned before to the legislative audit staff, any audit involves a lot of staff time, both of the audit staff's as well as the college's. One request I would like to make is that, at completion of the gathering of financial and other information at the college, we then sit down with the auditor's staff and have a discussion regarding problem areas and possible recommendations. The reason for this request is that it could be done at a time when this information, hopefully, would be fresh on our minds and would not take a great deal of time in researching; also, our working papers would be out and available. This way, we could clarify a lot of misunderstandings at this time. When there is a 13-month time span between the beginning of the audit and the exit interview, we find we have forgotten a lot of the information discussed in the early stages of the audit and it is very time consuming to go back and research this information again.

## ACCOUNTING

I think the audit committee should be aware of the type of turmoil we have gone through regarding accounting systems the last few years so far as colleges and universities are concerned. For some time, we have followed the American Council on Education publication called College and University Business Administration and lately, from this we have adapted some WICHE programs and changed somewhat to the new AICPA Guide. Now we are making changes to adapt to JAG which is a result of the joint work of WICHE, American Council on Education and AICPA. Also, during this time, we have been adapting as much as possible to SBAS. As soon as AICPA was available (which was in July, 1973) we immediately took steps to bring our accounting system in line with these recommendations. With the advent of JAG, we should have a stabilized accounting system for the next four or five years. With our limited accounting staff, we have attempted to keep up with these numerous accounting changes and, in all cases, have tried to follow generally accepted accounting principles.

I think one should realize that in following this practice, there will be minor deviations due to the size of our operations and the limitations of our

staff. The accounting guide we follow is designed for the largest and most complex institutions as well as for the smaller ones and in many cases, because of the insignificance of both the dollars involved and the results desired, we will not go into the amount of detail recommended.

## FOUNDATIONS

Of most concern to me in this audit and the one that seemed to involve the larger portion of the audit staff's work (although the Foundation had just been audited by a private concern and their report was available to the audit staff) and the one which has taken up the greater part of our report, is the Foundation area. It is in this area that you have stated lies the reason you elect not to express an opinion on our financial statements. I feel the audit staff did not fully understand the Foundation and its operation in relation to the college. To properly understand this relationship, one has to look at the college's basic purpose, which is education, and a very integral part of this education is research. This is even more important at an engineering college. It is very important that we keep our students and faculty up-to-date in the technology of our times as well as give them the opportunity to participate in the practical application of this technology. Over the years, we have received little state funding for research due to tight budget constraints, etc.

Back in 1955, interested professors and the college business manager, with help from the Alumni Association, formed a Minerals Industries Research Fund which later was incorporated into what is now called, the Montana Tech Foundation. The basic purpose was to solicit monies for research (since state money was not available) which would help faculty and students in their educational objectives. Through the years, our Foundation has returned to the college thousands of dollars worth of scientific equipment (which includes such items as our college computer) and helped hundreds of students earn money to go to school as well as provide contracts for which they could gain graduate work for thesis credit. It has helped numerous faculty keep up-to-date in their fields as well as provided summer employment which has helped the college maintain qualified faculty.

The Foundation now owns a separate research center consisting of 4 buildings located on 85 acres of land in the Butte Industrial Park and valued in excess of $1,000,000, which will probably be the headquarters of the MHD program, one of the largest research grants ever to be given to a college or university in Montana.

The one and only purpose of the Foundation is to aid and assist the college and I know of no expenditure made in the Foundation that has not accomplished this purpose, either directly or indirectly. It is somewhat disturbing to me, as well as to many others who have worked long hours to make the Foundation a viable organization, to see comments in the report such as "the college loses money which would otherwise be available to defray operating expenses", "the college loses the overhead funds" (when all indirect cost dollars go back to support the college), or when the audit staff makes recommendations on payrolls and retirement benefits which would greatly deter faculty and staff participation in Foundation research and eventually would lead to the downfall of our Foundation and its research, for which so many have worked so hard. We have not attempted in any way to hide or to not properly disclose the operation of our Foundation. The Regents and the Commissioner's office are fully aware of our Foundation operation as well as the operation of other Unit's foundations. The Legislative Auditor is also furnished a copy of our Foundation financial report. For some time, we did show our Foundation revenues and expenditures on our agency accounts on the college statements. In the future, we probably will have a note of disclosure on our college statements regarding the Foundation. We would be happy to meet with the audit committee and work with them regarding a better method of disclosure that would be beneficial to the Legislature, Foundation, and the college. We would hope that something along this line could be worked out since foundations and their operations, in connection with colleges and universities, are in no way new and are accepted and recognized throughout the country.

## CONSTITUTIONAL STATUS

The constitutional status is one which I feel should be answered by the Commissioner's office and is not one basic to Montana Tech but rather to the whole University system. It is one that I, as a Business Manager, feel I should not be involved in the reply to your report.

## COLLEGE ACCOUNTING AND STATE-WIDE BUDGETING AND ACCOUNTING SYSTEM

There have been reams of materials written about the University System and its problems with SBAS. I do not feel that, at the present time, you would be interested in going over all of the details regarding this. I only would like to make the following points: (1) At the present time, SBAS is not capable of

handling the University System's accounting in accordance with the fund accounting system desired by the University units and which is recommended by AICPA. If SBAS is modified and expanded to meet our needs, then we can consider any recommendations at that time. (2) One of the requirements of SBAS is that all of our local funds be deposited in the State Treasury system. This means that the majority of our local funds, consisting of auxiliary enterprise funds and student aid funds, such as scholarship and loan funds, would be deposited in the State Treasury. One of the purposes of the Business Office in administering these funds is that we provide a service to the students. In most cases, on scholarships and loans, we write the check and deliver it to the students the same day. I do not feel that SBAS is capable of servicing the students in this way and we feel this is a very important point as far as depositing our local funds into the State Treasury system is concerned.

## INVESTMENT OF COLLEGE FUNDS

The college did maintain its own investment program for the 1972-73 fiscal year and has maintained one for a number of years. When the State Investment Board was available to handle our investments, we immediately started placing all available funds with the State Board of Investments. The State Board of Investments (as they will concur with) wasn't available to handle our investments until November of 1973, which was approximately five months after the period of this audit.

## LACK OF OPINION

You have stated that you cannot express an opinion on the financial statements because revenues and expenditures that are in the Foundation are not shown in the college statements. The Foundation does have a separate, audited financial report which is audited every year and these auditors will this year, issue an unqualified opinion on this report. The last audit performed at the college was done by Newland, Horn and Taylor, Certified Public Accountants, Butte, Montana, and they issued an unqualified opinion on the financial statements of the college at that time. I see no reason why you cannot express an opinion on our financial reports with the possible exception of justifying beginning balances, but you have not stated this as a reason.

One other reason that I can see for the lack of an opinion (and I do not agree with this) is your statement that gifts and grants given to the co[illegible] are recorded in the Foundation and not in the college books. I believe Board

Item 188-001, which is a policy statement on the acceptance of gifts and grants, gives us the authority to put gifts and grants in our Foundation because that is the basic purpose of the Foundation as it handles all gifts, grants and contracts for the college. We are in the process of drawing up a joint legal document between the college and the Foundation so that procedure will be on a more formal basis.

One of the basic reasons for gifts and grants being channeled through the Foundation is that we can honor the donor's objectives in administering these grants. You will note that in Board Item 188-001, gifts and grants will not be considered in determining the normal operating budgetary requirements of the unit unless so specified by the donor. If we handled these grants as you recommend through the college, they then would be put in a Current Funds Restricted category as recommended by AICPA; then, according to the State of Montana budget policy, this money would be included in the operating budget of this unit and we would be unable to honor the requests of the donors of these funds as we are able to in the Foundation. This might be in violation of Board policy.

## SPECIFIC RECOMMENDATIONS

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE ESTABLISH PROCEDURES TO EQUITABLY ALLOCATE INTEREST EARNED ON THE INVESTMENT OF LOCAL MONEY TO THE VARIOUS ACCOUNTS FROM WHICH THE MONEY WAS INVESTED.

' ' ' ' '

We concur partially with this recommendation. We will attempt to allocate some of the monies back to the various fund groups. There is no way we are going to allocate investment monies back to each individual fund as the accounting and bookkeeping costs would involve more than we would be earning on the investments. We operate on a pooled investment fund concept and many funds have $3, $5, and $10 balances in them. Presently the income from all local monies except plant funds is deposited in the President's Fund in the Foundation and all of the expenditures from this account are made on behalf of the college. This interest income was recorded in the Foundation and we agree there should be a disclosure on the college financial statement. This will be done, probably

just as a note of disclosure.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE:

1. RECORD THE RECEIPT OF ALL GIFTS AND GRANTS AND SUBSEQUENT DISBURSEMENT AND EXPENDITURE IN THE COLLEGE RECORDS.
2. RETAIN CUSTODY AND CONTROL OVER THE MONEY RECEIVED THROUGH GIFTS AND GRANTS MADE TO THE COLLEGE.
3. ESTABLISH WRITTEN CONTRACTS FOR ALL WORK TO BE DONE BY THE FOUNDATION ON BEHALF OF THE COLLEGE OR TO BE DONE BY THE COLLEGE ON BEHALF OF THE FOUNDATION.

. . . . .

We have, for some time, noted the total receipts and expenditures of the Foundation in our annual financial report under agency accounts. This practice was discontinued. We will again disclose the total Foundation receipts and expenditures in the college financial statements; in addition, the financial report of the Foundation is made available to the Commissioner's office as well as to the office of the legislative auditor.

We feel that the Foundation has proper custody and control of the gifts and grants and that there is more assurance in the Foundation that gifts will be used as specified by the donor. We do have a formal means of assuring that grants and gifts to respective departments will be used in the manner designated by the donors.

As mentioned in the previous part of this reply, we are drawing up a formal document that will apply to the college-foundation relationship on gifts, grants and contracts.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE:

1. SEEK COMPENSATION FOR THE FAIR MARKET VALUE OF COLLEGE ASSETS GIVEN TO THE FOUNDATION.
2. CONSIDER THE POSSIBLE VALUE OR USE OF ASSETS BY OTHER STATE AGENCIES PRIOR TO DISPOSAL OF SUCH ASSETS TO NON-GOVERNMENTAL ENTITIES.

. . . . .

The ore mill, valued at $43,176, which is the item of equipment in question here, was taken off the Foundation inventory as of 1972-73 by our auditors. In the future we probably will put pieces of machinery such as this on a loan agreement rather than get involved in inventory transfers between the Foundation and the College. This piece of equipment that we are talking about is shown on our inventory as valued at $43,176 but actually has very little value even for salvage. On our campus, it has not operated for years and additional expense at the Research Center was necessary to make this particular item of equipment functional. The Research Center also had a contract on which they could use this particular piece of equipment.

We concur with Item 2 and in nearly all cases, this is done.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE RECOGNIZE EXPENDITURES MADE BY THE FOUNDATION ON THE COLLEGE'S BEHALF AS GIFTS AND ACCOUNT FOR THEM ACCORDINGLY.

. . . . . .

This particular recommendation has a wide degree of complexities. There are many expenditures, not only those made by the Foundation, but also others made by the Alumni Association, the Community of Butte, etc. The only items we record as gifts are capital items or items that can be capitalized which are given to the college. We do not record services of many organizations such as the Alumni Association or the Boosters, etc., nor did we record the expenditure of over $20,000 of the Butte Local Development Corporation for a master plan at Montana Tech.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE DISCONTINUE PROCESSING THE FOUNDATION'S PAYROLL, TERMINATE THE FOUNDATION EMPLOYEES FROM THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM, AND MAKE PUBLIC EMPLOYEES' RETIREMENT AND TEACHERS' RETIREMENT DEDUCTIONS ONLY ON SALARIES ATTRIBUTABLE TO COLLEGE WORK.

. . . . . .

The Foundation is administering contracts awarded to the college. To administer these, in many cases we hire college personnel as well as students and we do have an obligation to provide retirement benefits to these people. Since Foundation employees are also considered state employees, and since the contract is awarded to the college, I feel it is logical that people administering these and working on these grants should be allowed to participate in the retirement systems. If this recommendation were carried through, there would be no way that we could encourage faculty members to participate in research (for instance, we will have some faculty members who will be 1/2-time teaching and 1/2-time research. This would mean that for 1/2 of their time on research, they would have to forfeit their retirement benefits).

AUDITOR'S COMMENTS

The college states that foundation employees are also considered to be state employees. However, a 1968 opinion of the attorney for the Public Employees' Retirement Division Board of Administration stated that employees of the University of Montana Foundation are not "state employees" as defined by Section 68-102, R.C.M. 1947. Similarly, in 1972, the PERS held that employees of the incorporated bookstore at Montana State University were not eligible for PERS membership. These opinions are attached as pages 85 and 86 of this report.

RECOMMENDATION

WE RECOMMEND THAT THE REGENTS SEEK LEGISLATION AUTHORIZING THE REGENTS AND THE OFFICE OF THE LEGISLATIVE AUDITOR ACCESS TO RECORDS OF FOUNDATIONS AND SIMILAR ORGANIZATIONS ESTABLISHED SOLELY OR PRINCIPALLY TO ASSIST THE VARIOUS UNITS OF THE UNIVERSITY SYSTEM.

' ' ' ' '

I do not believe legislation would be required for this. I think Regent's authorization should be requested and I don't see any problems in the Regent's granting this request. I do not believe the institution or the Foundation would have any objections to this.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE REVISE ITS ACCOUNTING AND REPORTING PRACTICES IN ACCORDANCE WITH GUIDELINES PRESCRIBED BY COLEGE AND UNIVERSITY BUSINESS ADMINISTRATION MANUAL AND THE AICPA GUIDE FOR AUDITS OF COLLEGES AND UNIVERSITIES.

. . . . . .

This was partially covered in the general comments at the beginning of our reply. We have made every effort to prescribe to College and University Business Administration and the AICPA guide. Again, I would like to point out that the AICPA guide was not available until July of 1973; yet, this audit report covers the fiscal year ending June 1973. The only use we could make of the guide at that time was to adjust some of our financial statements to be more in line with AICPA. We are making every attempt to follow the College and University Business Administration manual as well as the AICPA guide to the extent feasible in line with our size and the limitations of our staff.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE CENTRALIZE THE ACCOUNTS RECEIVABLE FUNCTION AND REPORT ALL RECEIVABLES ON ITS FINANCIAL STATEMENTS.

. . . . . .

We now have set up accounts receivable for room, board and student fees and these receivables are now appearing on our financial statements. We are in the process of centralizing all accounts receivable.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE ACCRUE ALL VALID OBLIGATIONS AT YEAR-END.

. . . . . .

Since the state just went on the full accrual system for the fiscal year ending June 1973, this presented many problems to the College business office and we did accrue as many obligations as was feasible at that time. We will continue to accrue all valid obligations of which we have knowledge. There always will be some small claims which will not end up being accrued and there is a distinct conflict here between state accounting and the recommendations of AICPA accounting in regard to accruals. AICPA recommends that you accrue expenditures when materials or services are received and the state accrues from outstanding purchase orders, which AICPA does not. It would be helpful to us if this could, in some way, be resolved.

AUDITOR'S COMMENTS

New Department of Administration instructions resolve this problem. Management Memo 2-74-1, which prescribes year-end cut-off instructions for fiscal year 1973-74, states that materials and supplies must be accounted for in the year received. Therefore, materials and supplies should be accrued only if the goods were received before year-end. These procedures are consistent with accrual procedures recommended in the AICPA guide, Audits of Colleges and Universities.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE REVIEW THE PROGRAMS PRESENTLY CLASSIFIED AS AGENCY ACCOUNTS AND TRANSFER THE ACCOUNTABILITY FOR COLLEGE OPERATIONS FROM THE AGENCY ACCOUNTS TO THE COLLEGE'S ACCOUNTS.

. . . . .

We now are in the process of reviewing all agency accounts and will make some transfers to the college accounts. Most of the accounts referred to in the audit recommendation are very small in dollars and minor in importance.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE DEFER ONLY THAT REVENUE WHICH QUALIFIES FOR DEFERRAL AND ACCRUE SALARY LIABILITIES WHICH ARE UNPAID AT THE END OF THE FISCAL YEAR.

. . . . .

Revenues and expenditures on summer school sessions, which seem to be the questionable area, will be reported totally within the fiscal year in which the program is predominantly conducted. In addition, deferred salary expenses and accrued liabilities unpaid at the end of the fiscal year will be set up when SBAS is modified to handle the accounting structure. This again was the first year that we operated a summer session at Montana Tech and we were not quite sure as to the proper placing of the funds.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE ESTABLISH PROCEDURES TO PROPERLY RECORD ALL FIXED ASSET ACQUISITIONS AND DISPOSITIONS, TAKE ANNUAL PHYSICAL INVENTORIES OF FIXED ASSETS, AND ATTACH IDENTIFICATION TAGS TO FIXED ASSETS.

. . . . .

The recording of fixed assets is a problem of which we are well aware and one which has been mentioned in the audit of every University unit. Basically, it is a problem of inadequate staff to get involved in the very time consuming task of inventories and identifying fixed assets on a yearly basis although we very definitely feel it is a very important part of our operation. We will attempt to correct many of the irregularities reported in the audit, although many of the items mentioned that were listed in the memo file are shown at a value far in excess of their actual value and in most cases are items which will be written off or junked.

This year, we are going to attempt to take a physical inventory of all capital items on campus and make sure that they are properly numbered and identified in our records.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE CHARGE ALL ASSAY AND ANALYSIS COSTS TO THE ANALYSIS PROGRAM REGARDLESS OF THE SOURCE OF FUNDS USED TO PAY THE COSTS, PERIODICALLY DETERMINE THE COSTS OF ASSAY AND ANALYSIS SERVICES PROVIDED, AND ESTABLISH FEES WHICH RECOVER THE COSTS.

. . . . .

We concur completely with this recommendation. This particular area has increased ten times over in the past year due to the increased work the Bureau is doing in assay and analysis work with increased demand for coal and ground water studies. The amount we had previously was so minor we could not justify a complete cost analysis. Now that it has reached that proportion, we are now in the process of running a cost analysis to see what our actual costs are and to establish the proper fee for those analyses.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE ALLOCATE ADMINISTRATIVE AND MAINTENANCE COSTS AND ASSESSMENTS AND LEVIES TO AUXILIARY ENTERPRISES, AGENCY ACCOUNTS, AND THE FOUNDATION AND OTHER GROUPS WHICH BENEFITED BY THE COLLEGE EXPENDITURES, AND ASSESS THESE GROUPS FOR THE COSTS OF ADMINISTRATIVE AND MAINTENANCE SERVICES AND ASSESSMENTS AND LEVIES.

. . . . .

We concur partially with this recommendation and this is the ideal way in which it should be handled in a large, complex institution. We now are charging more accurately the upkeep and maintenance expenses to the auxiliary enterprises and have worked out a complete cost arrangement for the Montana Bureau of Mines and Geology. We also are planning on working out a cost analysis for the Foundation. In many cases, the amount of time and the detail and expense involved does not justify the cost. For instance, our SUB has the only conference rooms on the campus and they are used nearly every day by faculty and staff. To properly account for what this auxiliary enterprise should charge the college for use of these facilities would be extremely costly, so you will find that a lot of times, due to the size of the institution, there are trade-offs for administrative and support help for use of the facilities, etc. which cannot be justified in a detailed cost study analysis.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE ESTABLISH ADEQUATE CONTROL OVER CASH BY REQUIRING THE BUSINESS OFFICE TO OPEN ALL MAIL AND REMOVE ALL CASH BEFORE FORWARDING MAIL TO THE APPROPRIATE DEPARTMENTS, RESTRICTIVELY ENDORSE CHECKS UPON RECEIPT, DEPOSIT CASH RECEIPTS ON A TIMELY BASIS, LIMIT ACCESS TO SAFEKEEPING DEVICES, AND CHANGE COMBINATIONS OR LOCKS PERIODICALLY OR WHENEVER PERSONS WITH ACCESS TO THE DEVICES TERMINATE THEIR EMPLOYMENT.

. . . . .

We concur with most of the recommendations made on internal control. Our problem is that, being a small institution with a small office, we do not have enough people to segregate all the duties which would provide for maximum internal control. We are setting up the practice of making more timely deposits. In the particular instance referred to in the audit of $85,900 accumulating over a nine-day period, the major portion of this money could be accounted for in two checks, one being our monthly payroll benefit check which usually is deposited the first of the next month after receipt of the payroll.

We no longer are endorsing restrictively endorsed checks to currency and I was not aware of this practice until it was brought to my attention by the auditor.

So far as access to the safe is concerned, this is a problem and probably will not be solved until we move into new quarters. H opefully, we then will have a separate cashiering area. We are investigating the possibility of changing the combination on our safe. We have had only one termination of employment that I know of and this employee did not have access to the safe.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE:

1. SEPARATE THE AUTHORIZATION, PAYMENT APPROVAL, AND CHECK PREPARATION FUNCTIONS FOR ANY LOCAL ACCOUNT FUNDS WHICH ARE MAINTAINED AND THAT CHECKS BE SENT TO PERSONS OTHER THAN THOSE WHO ORIGINATED PAYMENT REQUESTS.
2. USE PRENUMBERED CHECKS FOR ANY LOCAL BANK ACCOUNTS WHICH MUST BE MAINTAINED.
3. DISCONTINUE BUYING BACK NSF CHECKS, RECORD SUCH CHECKS AS REDUCTIONS TO THE BANK ACCOUNT AND INCREASES TO ACCOUNTS RECEIVABLE, AND REFER UNCOLLECTIBLE AMOUNTS TO THE DEPARTMENT OF REVENUE.

. . . . .

1. Here again, this involves more staff people as we do not have so many staff people to do a particular job. There is only so much separation one can have and in most instances, the three cashiering disbursment functions are separated and checks sent to those other than the one to whom payment is made, although there are some exceptions to this.

2. We are starting to use prenumbered checks on all local bank accounts.

3. We agree with the recommendation and are meeting with the bank to set up the procedures to institute these recommendations.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE INVENTORY ALL CASH CHANGE FUNDS UNDER ITS CONTROL, FORMALLY ESTABLISH NECESSARY CHANGE FUNDS AND MAINTAIN THEM FROM THE CONTINGENT REVOLVING ACCOUNT, LIMIT ACCESS TO FUND CUSTODIANS, PROVIDE FOR FORMAL ACCOUNTABILITY, AND MAINTAIN SUCH THROUGH PERIODIC RECONCILIATIONS.

. . . . .

We concur with this recommendation and are now in the process of inventorying all change funds and have deleted some of these change funds. We will provide for formal accountability and maintain periodic reconciliations.

RECOMMENDATION

> WE RECOMMEND THAT THE COLLEGE PERIODICALLY EVALUATE THE STUDENT HEALTH SERVICE PROGRAM AND REVISE THE FEES AND BENEFITS AS NECESSARY TO PROVIDE A REASONABLE RESERVE AND MAINTAIN THE PROGRAM ON A BREAK-EVEN BASIS.

. . . . .

We agree with the recommendation that the health service fund should be evaluated. To my knowledge, it has not been since the beginning of the program. I do believe it should be on a break-even basis, but we do not feel our present reserve is excessive. If it continues to increase, we will, possibly, increase benefits. There was a decrease last year in our reserve of approximately $1500 for the fiscal year.

RECOMMENDATION

> WE RECOMMEND THAT THE COLLEGE DETERMINE WHETHER THE $15,000 TRANSACTION WITH THE ALUMNI ASSOCIATION WAS ACTUALLY A LOAN AND, IF NOT, TAKE APPROPRIATE MEASURES TO RECORD THE TRANSACTION PROPERLY.

. . . . .

The $15,000 transaction mentioned here was not a loan to the Alumni Association but merely the paying off of $15,000 of costs incurred in lighting the stadium. This stadium project was a project taken on by our Alumni Association. This stadium was eventually given to the school at no charge and is valued in excess of $500,000. The Alumni had contracted the lights but, due to some change orders, was unable to complete part of the final payment to the contractor. This payment was made out of our health service fund, which, at that time, was the only money available. Probably this year, we will write off this particular transaction.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE APPLY THE HEALTH SERVICE REIMBURSEMENTS POLICY EQUALLY TO ALL STUDENTS.

. . . . .

As mentioned to your audit staff, I find that there are no special provisions or regulations regarding the health service program. Basically, when it was first set up, it was designed to make partial payment to the students for the cost of medical expenses. What is being paid out of this fund is the additional cost of health insurance for athletes that is not covered by our athletic insurance policy. This was done at a time when athletic insurance took a great jump and there was not sufficient funds to pay the additional costs not covered by insurance. We do apply the health service reimbursement policy equally to all students, but what we have here is the reserve in the health service fund being used to pick up part of the athletic department's insurance responsibility. When we rewrite our health insurance policy, we will consider this at that time.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE GRANT EMPLOYEES VACATION LEAVE IN ACCORDANCE WITH APPLICABLE STATE LAWS.

. . . . .

In regard to the college granting non-teaching professional employees vacation leave at the rate of 22 days a year, this is a policy that was instituted by the Board of Regents which has been followed throughout the University system. I believe it would be the responsibility of the Commissioner's Office to reply to this.

In the two or three other minor cases noted, we have, at various times, made minor exceptions to the regulations where it would benefit the institution; for instance, we allowed an individual a 1/2 day or a day's vacation prior to a registration period so that she would be available for work during the time we needed her. I do not know, though, of any exceptions where an employee terminated owing the college vacation or sick leave credit. It mostly involves employees being allowed vacation prior to the year's waiting period.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE MAKE EMPLOYEE TRAVEL ADVANCES FROM THE CONTINGENT REVOLVING ACCOUNT OR SBAS.

. . . . . .

We concur with this recommendation and are now using the contingent revolving account for travel advances.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE INCLUDE THE LOAN CANCELLATION PROVISION IN THE NDSL NOTES.

. . . . . .

New notes for the second semester 1974-75 will include the loan cancellation provision.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE CONFER WITH THE FEDERAL AGENCY SPONSORING THE NDSL PROGRAM AND SEEK PROCEDURES WHICH WOULD ALLOW THE USE OF NDSL FUNDS TO WRITE OFF SMALL BALANCE LOANS.

. . . . . .

Small balance loans have now been paid out of the Financial Aid Office; similarly, additional loans will be handled in the same manner.

RECOMMENDATION

WE RECOMMEND THAT THE COLLEGE ESTABLISH AND IMPLEMENT COLLECTION PROCEDURES FOR NDSL LOANS.

. . . . . .

The college has established and implemented collection procedures for NDSL loans.

RECOMMENDATION

> WE RECOMMEND THAT THE COLLEGE DELEGATE RESPONSIBILITY FOR THE USAF PROGRAM TO THE FINANCIAL AID OFFICER, DETERMINE THE FUTURE NEED FOR THE PROGRAM, AND EITHER USE THE AVAILABLE LOAN MONEY OR WITHDRAW FROM THE PROGRAM.

. . . . .

The College USAF program has always been the responsibility of the financial aid officer. Over a period of time, we did have quite a few different financial aid officers and in the process, the incoming financial aid officer was not aware of the program. We now are in the process of withdrawing our funds from this account.

# APPENDICES

AUTHENTICATED COPY Lawrence P. Nachtsheim

Lawrence P. Nachtsheim
Administrator

November 21, 1972

Mr. Thomas E. Nopper
Buksiness Manager
Montana State University
Bozeman, Montana 59715

Re: Montana State University
Bookstore, Inc.

Dear Tom:

Your letter of November 13, 1972 was presented to the Board of Administration Attorney at the regular meeting of the Board of Administration, November 16, 1972.

It was the opinion of the attorney that the PERS may not cover any non-profit corporations. This opinion was accepted by the Board.

Therefore, PERS coverage is not available to the Bookstore at this time.

The attorney stated further "that in order for the Bookstore to be covered under the PERS it would be necessary for the Bookstore employees to fall under the authority of the Board of Regents."

The Board of Administration will be reviewing legislative proposals during a special meeting the early part of December when the actuarial evaluations are presented by the Board actuary and I will include your suggested legislation at that time.

With the recodification of the PERS Act that we have been working on since January, I would not be too optimistic about adding additional administrative legislation but I cannot give you a definite answer at this time.

I will advise you after the December meeting.

Sincerely yours,

Lawrence P. Nachtsheim
Administrator

LPN/bb

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HELENA, MONTANA 59601

MICHAEL J. HUGHES
GEORGE T BENNETT
[illegible]

TELEPHONE
AREA CODE 406
DIAL: 442 3690

March 4, 1968

Subject: Employees of University of Montana Foundation

Mr. John F. Sasek, Secretary
Public Employees' Retirement System
Room 236 - Sam W. Mitchell Building
Helena, Montana 59601

Dear Mr. Sasek:

I have your letter of March 1, 1968, in which you inquire whether employees of the University of Montana Foundation are eligible for membership in the Public Employees' Retirement System and social security coverage.

It is our understanding that the University of Montana Foundation is a private charitable corporation. Its employees would not fall within the definition of "state employee" found in Section 68-102, RCM 1947, and hence would not be eligible for membership in the Public Employees' Retirement System. Further, such employees are not "in the employ of the state, or any political subdivision thereof", required by Section 59-1102, RCM 1947, to fall within the ambit of the federal-state agreement for social security coverage. Employees of this private corporation will, of course, have social security coverage under the general law.

Very truly yours,

Michael J. Hughes

Michael J. Hughes

MJH:h